Economic Conditions
Governmental Finance
United States Securities

1917

The National City Bank
of New York

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NEW YORK, JANUARY, 1917

Peace Proposals.

IF the influence of peace upon general prosperity was to be judged by the effects of the first official efforts for its restoration, as seen on the stock exchange after the publication of the German Chancellor's proposals and President Wilson's communication to the belligerent powers, we should have to conclude that it would be very harmful. However, the slump in the market was anything but a deliberate reappraisal of values. It was more of a psychological phenomena. The situation was inherently weak with a great amount of stocks carried upon margins, brokers' loans being above any previous record. This was a natural result of the great gold importations, easy money and big earnings. There was a general desire to get out of the market before the end of the war, and at the first sign of definite developments toward peace a rush started, helped along by vigorous short-selling. The buying power of marginal accounts is very great in putting the market up, and the compulsory selling out of these accounts as margins are exhausted is an equally great influence in putting it down. The liquidation has cleared away an artificial fabric of support and improved the general financial situation.

The declines were mainly in the industrial stocks in which speculation has been active, railway shares being affected in minor degree and bonds scarcely at all. In fact the area of serious disturbance was comparatively small although the sum total of transactions made another striking showing of the magnitude of the New York market, reaching 3,095,000 shares on December 21st.

Of course the war has made unusual profits in many lines, for it has created an enormous and imperative demand upon existing means of production. To whatever extent capital values have been inflated by over-estimating the duration of these earnings, of course a readjustment would have to be made, but it is also true that a great many of these companies have made very substantial additions to their assets during the last year and a half. As a general thing the industrial companies are in very much better condition than they were two years ago, and this must be taken into account in judging the situation. The railway stocks have not been lifted by the war, although railway earnings have benefited by the general industrial activity, and on the whole the stock market is probably on a more conservative basis now, assets considered, than when the war began.

After the War.

The end of the war is not yet in sight, but when it comes there will be undoubtedly a letting down of this abnormal foreign demand for our products, and a lowering of prices and profits; although this may tend to check buying for a time the country is under tremendous momentum and the war business is now a small part of the total. With a drop in prices to somewhere near normal levels there should be a renewed impetus to our industries. Although our exports will fall off and our imports increase these changes will come gradually. The first effect will be a shifting of the demand from war goods to peace goods. There will be an enormous amount of work to be done in the world, in Europe to restore a state of industrial order and in other countries to make up for the time that has been lost. There will be a great outlet for our agricultural implements and for machinery of various kinds to make up the loss of man power. The shipbuilding industry will have a long program ahead of it, and its requirements will be an important factor in the steel market. The railways of Europe will need new equipment, and there is every reason to expect the steel and equipment companies to have plenty of business, although the prices and profits of war business are not to be expected and costs must be lowered to correspond.

The demand for our raw materials, such as lumber and the metals, and for agricultural products, will be good. A reduction of the number of meat animals has occurred in Europe, which will require years to replace, and the loss of horses threatens to interfere seriously with farm operations. These are some of the prolonged effects of the war.

Finally, there is work which ought to be done in this country, and which is delayed by the high costs now prevailing. In one immense field it is known there has been failure for ten years to keep pace with the country's development, and that is in the improvement of railway facilities, particularly at the terminals. Now that the advantages of electrical propulsion are fully demonstrated there is opened an enormous opportunity for construction work in that field. It is greatly desired, for the good of the general industrial situation that the particular uncertainties which attach to railway investments, by reason of the public attitude toward them and their relations with organized labor, should be cleared up, so that the great work of development in this field may go on. It means security to all the industries, and full employment for the wage-earners in the transition period following the war, besides improved transportation service and great economies. Here is an opportunity for statesmanship where great practical benefits to the country are possible.

The Foreign Field.

The opportunity to extend American trade abroad should be much better in the years following the war than during the war. The extraordinary demands upon us, the scarcity of materials, high prices and general derangement of trade, have handicapped new efforts in the foreign field. Moreover, we are able now to enter this field in a new capacity, that of an investor and organizer. The United States has become much the richest country in the world. Even before the war its annual gains available for investment were as great as those of any three other countries, and our pre-eminence in that respect is now greater. Our steel-making capacity is equal to that of all the rest of the world, and the same is true of our tool-making and machine-building capacity.

We have, therefore, the equipment for supplying the very things which after the war all the world will be wanting. There has never been a time when there was such pressing need for improved appliances for increasing production as there will be after the war. It is by this means that the wastes of the war must be made up. We can go out to the undeveloped countries and put into the hands of their people the means of opening new stores of wealth not only for themselves but for the common supply. The making of munitions, however profitable and however it may be justified, has its dark side, but there is no dark side to the business of supplying the implements of industry. The more it prospers the greater trade there will be for everybody.

Responsibilities of Leadership.

According to the statistics of wealth and the showing of productive powers we have come into a position of leadership, but are we going to lead in a positive sense? Are we going to make ourselves felt in the organization and advancement of the world? If we really set about doing this, and have anything like a national appreciation of what we can do, we need have no uneasiness about business opportunities after the war. There is no limit to the opportunities in Latin America, in China, in Russia, and elsewhere.

Leadership, while nominally a position of command, is equally a position of service. It depends upon ability to confer benefits upon those who acknowledge the leadership. A creditor nation cannot be a mere sucker, always drawing upon the rest of the world to heap up wealth at home. It must be an active participant in affairs beyond its borders. The wealth which other people owe must be left with them, or employed with them, while they need it for their development. This is the policy by which Great Britain built up her great foreign interests and by which Germany so rapidly increased her importance in world trade and finance, and as an industrial nation.

We can have some idea of the policy the people of this country should pursue at this time and after the war by imagining the course that a single large but harmonious family, whose membership included all the trades, would follow under similar pressure from outside for all its products. We can picture in our minds the family councils. We may be sure that the situation would be recognized as the opportunity in a life time to improve the position of that family, by exerting itself to the utmost to meet the demands upon it. It cannot be supposed that any member of a practical, hard-working, ambitious family under such circumstances would want to restrict either its production or sales, or be willing to fall short of his best efforts, not merely to take advantage of the opportunity for profit, but of meeting effectually the demands upon the group. It is safe to say that whatever tendencies there might be at other times to personal ease, to indifference to family welfare, to extravagance or to family bickerings, an occasion like this would put an end to them. In short we may be sure that they would be united in giving their energies to the emergency before them.

We cannot expect all the people of a nation to have as intimate a knowledge of their common interests as the members of a family have, but after all the analogy is sound, and the policies that are good for the family group are good for the nation group. There were never such arguments or such inducements for a people to

come to a good understanding with themselves, and to study their common interests, as these which press upon the people of the United States today. We are passing through times when ability, competency, readiness and willingness to render service beyond our borders counts as never before, and will be compensated as never before.

General Business Conditions.

The past year has been one of the most extraordinary in the history of the country. The demand for labor has constantly exceeded the supply in practically every branch of industry, and the competition of employers has effected a constant advance of wages. In the steel industry the aggregate of advances during the year was thirty per cent. and they were almost as great in the other leading industries. No trouble has been experienced to sell goods, and the profits of business have been, as a rule, highly satisfactory, as a result both of good prices and of operations to capacity.

In the latter part of December there have been reports of a slowing down of the demand for steel, but the unfilled orders of the United States Steel Corporation at the close of November were at the highest point on record, and a million tons above the figures of the previous month. Indeed the mills are booked up so far ahead that this fact alone is sufficient to put a check upon new business.

There is no complaint any where of a lack of orders, but there is widespread complaint of car shortage. This seems to be the limiting factor in the industrial situation.

Exports continue at a record-breaking rate, the total for November being $517,900,000, as compared with $327,670,353 in November, 1915, and $278,244,191 in November, 1912, the highest November before the war. The imports in November, 1916, were $177,000,000, against $155,496,175 in that month of 1915, and $153,094,898 in November, 1912. The trade balance for November was $340,900,000, and for eleven months, $2,774,400,000, which makes it certain that the credit balance for the calendar year will be above the enormous total of $3,000,000,000.

The final government report on the 1916 grain crops raised the total for spring and winter wheat to 640,000,000 bushels, an increase of 32,000,000 over the last previous figures, for which the country is grateful. Corn is placed at 2,593,000,000 bushels; oats at 1,252,000,000 bushels. Wheat broke badly upon the peace news, and has been off about 50 cents per bushel from the highest price of the year.

Wheat has been down about 50 cents per bushel from the high price of the year, but has made a partial recovery.

The cotton crop has turned out larger than expected, the ginnings to December 13th, amounting to 10,845,989 bales. The government's estimate on the crop is 11,511,000 bales, and for 1915 was 11,161,000 bales. The price has suffered a recession from about 21 cents per pound in the closing days of November, the highest recorded quotations in forty-three years, to about 16 cents, or a drop of approximately 5 cents per pound. The concensus of market opinion seems to be that there is cotton enough to provide for consumption until the new crop is made, and present prices will probably induce a large planting.

Cattle, hogs and sheep continue to command high prices, and wool and hides are important commodities on which there have been no recession of prices. Purchases to clothe the armies are the leading influence upon wool and leather. The contract price of wool to be taken from the sheep's back next May or June is now close to $1.00 per pound, clean landed. Leather has taken a great leap in the last two months and nearly or quite doubled in price since a year ago.

There is no falling off as yet in the demand for shoes or for textiles, as a result of the high prices, and the mills and shoe factories are working to capacity. It remains to be seen whether retail distribution will hold when the consumers face the new prices.

The Money Market.

The excitement of the stock market was not reflected in the banking situation. While loans upon stock exchange collateral were high in the aggregate they were amply secured, and liquidation was without demoralization. The rate of interest was scarcely disturbed. Undoubtedly, the volume of collateral loans was considerably reduced, but the aggregate loans of the clearing house banks held up close to what they were in November. They were $3,357,047,000 on November 4th; $3,370,098,000 on December 2d, and $3,344,183,000 on December 23d.

Since the flurry in call rates about December 1st, money, both on call and for commercial loans has maintained an even position, ranging from 4 to 4½ per cent. The feeling is that money will not, in the near future, be pressed on the market as freely as has been the rule during the last two years.

The most notable feature of the financial situation for six months has been the steady movement of reserve money to the interior, and that has not come to an end. Direct shipments by the banks have been large, not only to reserve cities, but to country correspondents. On November 4th last, the clearing house banks of New York held $474,675,000 in vault and $229,297,000 in authorized depositories, chiefly the Federal reserve bank of New York. On December 23d, they held $418,942,000 in vault and $239,922,000 in depositories, and in the meantime the importations of gold through this city have been approximately $130,000,000. All of the latter has not reached clearing house banks, but the showing is remark-

able, particularly as the cash holdings of the Federal reserve banks have not increased in any corresponding degree. Undoubtedly a very large amount of money has been taken up in circulation, as a result of the great activity of trade and high prices. A sign of this appears in the enormous call upon the Treasury for small denominations. It is unfortunate that the Federal reserve notes are not the main source of supply for this currency.

The principal items of the New York clearing house bank statement on December 23, 1915, and December 23, 1916, are shown by the following table:

	1915.	1916.
Loans	$3,211,857,000	$3,344,183,000
Net Demand Deposits	3,255,610,000	3,300,759,000
Net Time Deposits	149,546,000	166,082,000
Reserve in Vault	485,263,000	418,942,000
Reserve in Depositories	222,203,000	239,922,000
Excess Reserve	145,892,000	90,064,000

Considering that the reserve banks still have large lending capacity the reduction of the surplus reserves in New York in the course of the year is not in itself a matter of concern but it is very interesting as showing that the country has more than absorbed the new gold supplies.

The Federal Reserve Banks.

The following statement shows the figures for the principal items of the combined statement of the twelve Federal reserve banks on December 17, 1915, and December 15, 1916:

	1915	1916
Gold Reserve in Banks	$334,887,000	$435,302,000
Gold with Reserve Agents	187,840,000	273,274,000
Total Gold Holdings	$522,727,000	$708,576,000
Commercial Paper	52,696,000	160,666,000
Bonds, Warrants, etc.	28,123,000	65,010,000
Member Bank Deposits	397,879,000	643,136,000
U. S. Treasury Deposits	15,000,000	28,762,000
Fed. Res've Notes Outst'ng.	181,362,000	289,778,000

The cash reserve against deposits after setting aside a 40 per cent. gold reserve against reserve notes outstanding was 90.9 in 1915 and 70.2 per cent. in 1916.

The amount of earning assets in the banks has materially increased during the year, and all of them have begun dividends, although several have considerable arrears to make up. With a continuance of the present money market they will be able to make good progress in so doing.

The cash reserve on December 2, 1916, $443,209,000, after providing for the reserve against notes was practically twice the amount required to be held against deposits, hence there was a surplus of $221,654,000. This would permit a theoretical expansion of note circulation to the extent of about $550,000,000 provided the additional issues did not involve a loss of reserves. If gold was wanted for export only the amount of the surplus could be had from the banks without a contraction of loans, or creating a deficit in the reserves. Here, however, the gold in the hands of the reserve agents would come into play. By substituting commercial paper, sixty per cent. of this gold could be withdrawn. It appears, therefore, that it would be theoretically possible to release about $385,000,000 of gold from the present holdings of the reserve system, if the resources of the twelve banks were consolidated and every bank was stripped down to the limit of its reserves. Still more could be released by making the banks subject to the penalties provided for a deficit in the rereserves, which, of course, would only be done in an emergency.

While in case of emergency the Federal Reserve Board would presumably call upon the reserve banks to support each other, ordinarily they must stand independently and maintain surplus reserves independently, and this makes the reserves very much less effective. The only bank upon which any considerable calls for gold for export are likely to fall directly is the one at New York. Settlements for the whole country in the foreign trade are made through New York. It is true that when New York settles for other sections it must be reimbursed by them, and ordinarily no difficulty is experienced, but if the movement should amount to heavy withdrawals of deposits from New York in gold, it conceivably might be embarrassing if the reserve system did not have the gold here. For this reason the steady and immense movement of gold from New York to the interior is something to ponder over seriously. A movement of this magnitude in any one direction is so abnormal that it is likely to be followed, sooner or later, by a similar movement in the other direction.

The distribution of gold among the Federal reserve banks during the past year is shown by the following table, which gives the holdings of each of the twelve banks on December 17, 1915, and December 15, 1916, and of the reserve agents on the same dates. Gold certificates are included:

GOLD AND GOLD CERTIFICATES.

	In the Federal Reserve Banks (In Thousands of Dollars)		With Federal Reserve Agents (In Thousands of Dollars)	
	Dec. 17, 1915	Dec. 15, 1916	Dec. 17, 1915	Dec. 15, 1916
Boston	$17,639	$28,601	$9,320	$13,103
New York	161,711	151,876	85,820	98,875
Philadelphia	16,567	25,790	9,160	15,932
Clev'd.	19,604	34,267	10,600	10,574
Richmond	15,515	27,909	8,450	16,454
Atlanta	8,644	13,100	12,700	21,278
Chicago	41,380	61,393	4,380	5,513
St. Louis	8,935	13,999	7,950	12,801
Minneap'ls.	6,796	16,455	14,000	20,331
Kas. City	9,542	23,623	9,000	19,777
Dallas	14,058	19,540	11,290	23,533
San Frs'co.	14,496	18,749	5,170	15,103
Total	$334,887	$435,302	$187,840	$273,274

The net imports of gold for the eleven months ended with November, as given out by the Treasury department were $399,600,000. The net imports for December have been sufficient to raise this total to not far from $500,000,000, and our domestic production has exceeded industrial consumption by about $60,000,000. Of these

gains the reserve system has acquired about $187,000,000. The national banks held on September 12th, the latest date for which figures are available, $529,725,000, against $569,363,000 on September 2, 1915. This loss of about $40,000,000 has been due to the payment of deposits into the reserve banks. The net gain of gold in the year in the reserve system, including member banks, has been only about $147,000,000, a very unsatisfactory showing.

One explanation of the failure of New York to retain any of the gold imported during the year is to be found in the subscriptions of this locality to the foreign loans. Our enormous exports have originated mainly in the other districts, they have been paid for partly in gold and partly in securities. New York has, doubtless, taken more than its proportion of securities, domestic and foreign, with the result that the interior has received more than its proportion of the gold.

Financing Our Exports.

The enormous volume of our exports, which made a new record in November, compels unremitting attention to the problem of how payment is to be received. Since the withdrawal of the proposed issue of British Treasury bills in this country, in deference to objections raised by the Federal Reserve Board, no new plan of financing has been proposed, and gold shipments have been resumed on a large scale. It is understood that new government orders in this country will be restricted, and the new British ministry is expected to take steps to more stringently control private expenditures, particularly for luxuries and imported goods.

A British loan of 100,000,000 yen was offered to the public in Japan early in December and readily taken. It is understood that payment is being made in exchange on New York, converting Japanese credits here. This helps the situation to the extent of $50,000,000. The loan is in the form of three-year Exchequer bonds bearing six per cent. interest. The *London Times* in announcing the success of the flotation says that a noteworthy feature of it is the fact that "no request for collateral was made by the Japanese syndicate which arranged the loan."

The circular of the Federal Reserve Board upon the proposed issue of British Treasury bills in this country naturally occasioned great interest in London. The *Economist* has discussed the matter temperately and sensibly. In its issue of December 2nd it said:

It has been somewhat hastily assumed in many quarters in the city that this pronouncement has been produced by German-American influence; but in view of the inflation and speculation now rampant in the United States, the Federal Reserve Board has plenty of reason to tell the banks there to restrict their investments, concentrate their gold in its hands, and generally keep their powder dry. Whether the Board's advice is wholly sound, time will show. It might have been thought that, with a view to control of foreign exchange after the war, a mass of European obligations falling due would have been a good asset. America could have called for their repayment at face value, but if she buys back her own securities, she will have an asset saleable only at a market price. Perhaps the Board thinks that America already has enough control of this kind, and perhaps it is right. But whatever the cause of this manifesto, and whether it be well advised or no, it will undoubtedly make our financing in New York more difficult, and we must at once set about meeting this difficulty. Since America wants gold we and our Allies must find it and ship it, and we must also prepare to ship securities of the kind that the Federal Reserve Board recommends to investors. Above all, we must increase production and reduce consumption, so that we have to import less from America, and may be able to pay for more of what we import by shipping goods. If we set about these things seriously, and make full use of our productive power for war, instead of frittering it away on unpatriotic self-indulgence, the Federal Reserve Board's action may have a salutary effect on our financial position.

Reserve Bank Agency in London.

The action of the Federal Reserve Board in approving of the appointment of the Bank of England as agent in London for the Federal Reserve Bank of New York does not, upon its face, have any special significance at this time. The Federal Reserve Act contemplates that such arrangements will be made in all important countries for the handling of exchange transactions and with a view to controlling or modifying the movements of gold in ordinary times. It has been common practice for the central banks of issue to have a portfolio of foreign bills for this purpose. The present times, however, are extraordinary, and the gold movements are upon a scale beyond any ordinary measures of control.

The newspaper reports from Washington which accompany the announcement connect it with the Board's disapproval of the British Treasury bills, as though it might be regarded as in some degree compensatory, or serviceable to the same end. Mere trading in foreign exchange will have no effect upon the situation, but, of course, to whatever extent the reserve banks will buy and carry commercial bills on London they will accomplish the same purpose that the Treasury bills would have accomplished. The latter were to be government obligations, and, although issued as a means of paying for purchases in this country, would not have been directly related to them in such a way as to make them eligible for purchase by the reserve banks. On the other hand commercial bills may be purchased by the reserve banks, either from the member banks or in the open markets of this country or abroad. The Treasury bills would have been payable in this country in terms of dollars, but commercial bills on London, unless issued under special arrangements, will be in terms of sterling, and subject to any fluctuations in the exchange rate which may occur before they are liquidated.

Gold For the Reserve Banks.

We have received numerous letters called forth by the discussion in this publication of the importance of increasing the gold holdings of the reserve banks and the means of doing so. Among them is one from Prof. H. S. Foxwell, of the Chair of Political Economy of the University of London, and one of the eminent economists of Great Britain. Prof. Foxwell says:

Reading the excellent remarks in your November circular, especially on pp. 5-6 on "How to Concentrate Gold Holdings"—with which, I may say, I entirely agree—it occurred to me that the writer might be interested to refer to, if he has not already seen it, an admirable article by M. Jean Lescure, one of the ablest of French economists, in which the same point is developed.

It will be found in the Revue d'Economic Politique (Paris), the number for January-February, pp. 59-80. The title is "La Reforme du Systeme Bancaire aux Etats Unis."

He regards the absorption of gold by the non-banking Treasury as the radical weakness of your system, and urges, as you do, that the gold should be bought for Federal Reserve notes.

In thinking over this question of gold certificates, I have found myself in difficulty because I do not know in what denominations they are issued and therefore cannot judge how far they enter into circulation as freely as coin or notes would do. You speak of them as appearing "in all cash payments of any size," and as "in the pockets and hoards of the people," from which I gather that they must be reasonably small denominations.

We have looked up the article referred to by Professor Lescure, of the Law School of Bordeaux, and find it to be an interesting one, describing the Federal reserve system. While commending it generally, the author puts his finger upon the inability of the reserve banks to acquire gold as the chief point for criticism. He says:

Will the Federal Reserve Banks succeed in normal times in constituting strong reserves in gold?

* * * We doubt it. Will not the Federal Reserve Banks have to raise their discount at the slightest alarm, perceptibly, too much and too often?

* * * The essential fault of the American Federal System appears to us to consist in the insufficiency of gold reserves which it will accumulate in the Federal Reserve Banks, and in the impossibility for the Federal Reserve Banks to play, in case of war, the role that in Europe is the lot of the central banks. The United States would lack this marvellous credit instrument which is the bill at forced currency issued by a large bank endowed, from the time of peace, with a great gold reserve.

In fact, the American monetary organization presents a difference compared to the European circulation, which seemed up to the present not to have drawn any attention and which undoubtedly explains this hiatus of the American Monetary System, we were about to say, inferiority. In Europe, the gold market is in the central bank; in the United States it is in the money house, that is, the treasury. While in Europe, gold coin and ingots automatically return to the Banque de France, Banque de Russie, and Banque d'Angleterre, in the United States, gold, produced in enormous quantity in this country favored by nature, returns to the Treasury where same is exchanged for gold certificates. And under these conditions, gold, represented in circulation by paper, instead of accumulating in the vaults of the banks, accumulates in the vaults of the Treasury, where it is exchanged for gold certificates. In Europe, it would accumulate in the vaults of the central bank, where it would be exchanged for bank notes. But, if one remembers that the circulation of gold certificates accrued in 1912, fiscal term, $105,000,000; that in the midst of the crisis of 1907, the gold accumulated in the Treasury in exchange for gold certificates, amounted to $670,000,000, one realizes the enormous stock of gold which was unused in the Treasury by this system. In case of war, without contradicting the definition and appellation of this certificate, one could not force the currency of gold certificates and increase the amount of same. Besides, one could not confine this metallic treasure to the Federal Reserve Banks in order to allow them to place into circulation bills, forced. This gold is the guarantee of the bearers of gold certificates. The American reform therefore should be completed by a law which would organize the return of gold to the Reserve Federal Banks. Substituting the Reserve Federal Note for the Gold Certificate.

From that day the United States might be considered as the most powerful financial country in the world, while at the present time it is not so at all. From that day, in fact, the gold reserve of the American banks would surpass, and greatly surpass, the gold reserve of the most powerful banks of Europe. Notes secured by this deposit would enjoy the most extensive credit. Withdrawal of gold, even in considerable amounts, would have no influence on the rate of discount. And in case of war, the new note would constitute an instrument of credit of the first rank for the American commonwealth. Such is mainly what is needed to supplement the new legislation.

This criticism, published two years ago, before the heavy importations of gold into this country had begun, has been fully justified by the failure of the reserve banks to obtain a due proportion of increasing supply. There is now convincing proof that the system is weak in this respect. The Federal Reserve Board will renew its late recommendations to Congress, and, we understand, propose, a more comprehensive plan of dealing with the matter.

Treasury Finances.

The report of Secretary of the Treasury to Congress, for the fiscal year ended June 30, 1916, shows receipts into the general fund, including various trust funds, but excluding postal revenues, were as follows:

Customs	$213,185,845.63
Internal revenue:	
Ordinary	303,486,474.04
Emergency taxes	84,278,302.13
Corporation income tax	56,993,657.98
Individual income tax	67,943,594.63
Sale of public lands	1,887,661.80
Mint service	4,354,613.12
Panama Canal tolls	2,869,995.28
Miscellaneous	47,534,403.16
Total	$782,534,547.77

The expenditures from the general fund were as follows:

For civil establishment	$204,038,737.91
For military establishment	122,392,362.98
For soldiers' homes, cemeteries, etc.	9,792,912.[illegible]
For rivers and harbors	32,450,301.55
For naval establishment	155,029,425.78
For Indian service	17,570,283.81
For pensions	159,302,351.20
For interest on public debt	22,900,313.03

For Panama Canal	17,503,728.07
For miscellaneous	1,016,310.50
Total	$741,996,726.97

The excess of receipts over disbursements in general fund was $40,537,820.80.

For the fiscal years ending June 30, 1917, the Secretary estimates income as follows:

	1917	1918
From customs	$230,000,000	$230,000,000
From internal revenue:		
Ordinary	319,000,000	319,000,000
Emergency taxes	124,000,000	145,800,000
Corporation income tax	133,000,000	133,000,000
Individual tax	111,750,000	111,750,000
Panama Canal tolls	6,500,000	10,000,000
Sales of public lands	2,000,000	2,000,000
Miscellaneous sources	58,000,000	56,000,000
Total	$984,250,000	$1,007,550,000

Disbursements for the fiscal years 1917 and 1918 are estimated as follows:

	1917	1918
For civil establishments	$231,693,000	$240,876,000
For military establishment	307,900,000	412,869,000
For rivers and harbors	45,000,000	38,000,000
For miscellaneous, war, civil	7,250,000	13,194,000
For naval establishment, exclusive of building	159,965,000	150,162,000
For building program, new	66,586,000	96,962,000
For building program, prior years	28,369,000	118,946,000
For Indian service	30,000,000	28,000,000
For pensions	158,063,000	155,558,000
For interest on the public debt	23,300,000	23,454,000
For Panama Canal	20,000,000	20,000,000
Nat'l bank note redemptions	10,000,000	10,000,000
Miscellaneous redemptions, public debt	50,000	50,000
Total	$1,088,176,000	$1,308,071,000

A deficit is indicated of total disbursements over total receipts of $103,926,000 in the fiscal year 1917 and of $300,521,000 in the fiscal year 1918. The committees of Congress have the situation under consideration, and are expected to submit a supplementary scheme of taxation to meet at least a part of the required sums, a sale of Panama bonds to cover the remainder.

Bond Market in 1916.

The feature of the bond market for 1916 has been the amount of financing conducted in the New York market for the account of foreign governments. Although many foreign issues, including the largest single offering ever made in the United States, the Anglo-French 5's, were brought out in 1915, the development of this foreign financing and the education of our bond buyers along the lines of world-wide investments have been greatly extended in 1916. During the year $550,000,000 British Government Secured Notes, $100,000,000 American Foreign Securities Notes (French Loan), $75,000,000 Russian Government Bonds, $75,000,000 Dominion of Canada Bonds, $86,000,000 French Municipal City Loans, $49,650,000 Argentine Government Discount Notes, and many smaller issues of the belligerents and neutral powers have been sold in the United States. It is conservatively estimated that $2,175,000,000 foreign Government bonds, notes and short term credits, financed in the United States since the beginning of the war, remain outstanding at this writing. On August 1, 1916, it was estimated that approximately $1,300,000,000 railroad securities have been resold or pledged under loans placed in the United States. Adding to these figures other securities returned and the continued heavy importations of gold in settlement of our favorable trade balance, the increased importance of the United States as a factor in world finance is readily recognized. Although the market for foreign issues during the month of December has been somewhat unsettled, together with the general security market, nevertheless the high yield of these securities and the payment in United States in U. S. gold, have made the external obligations of foreign Governments with good credit a desirable investment for our people.

In comparison with foreign offerings, the total of new domestic loans have been relatively small. There have been, however, a number of important railroad, industrial and municipal issues, such as: $80,000,000 American Telephone & Telegraph Collateral 5% Bonds, $40,180,000 Chesapeake & Ohio Railway 5% Convertible Bonds, $50,000,000 Midvale Steel & Ordnance 5% Collateral Trust Bonds, $25,000,000 New York State 4% Bonds, $55,000,000 City of New York 4% Corporate Stock, $20,000,000 Armour & Co. Real Estate First Mortgage 4½% Bonds and $14,451,000 Delaware & Hudson Convertible 5% Bonds.

A prosperous period of earnings has greatly helped the railroad and industrial companies to provide for improvements and extensions out of income. Even short term obligations that appeared burdensome at the beginning of the war have been satisfactorily provided for in many cases. The year 1916 has been especially favorable for the reorganization of companies which found themselves in financial difficulties. Although it has been necessary for our home industries to compete with the high yield of foreign loans, nevertheless, the demand for domestic securities has been sufficiently strong to enable the companies to arrange for their requirements on favorable terms.

The total bond sales on the New York Stock Exchange for 1916 amounted to about $1,150,000,000, which is the largest annual turn over on the Exchange since 1909, and the second largest in the history of the Exchange. Considering that these transactions represent only a small percentage of the total bond trading of the country, the volume of investment business conducted

during the past year is easily recognized as having been very large. The average price of forty listed bonds on December 26, 1916, as compiled by the *Wall Street Journal*, was 94.97, compared with 94.03 a year ago.

The rise in connection with the large volume of trading and the new financing conducted in the United States during the past year speaks well for the power of absorption by American investors.

The market for municipals has been very firm throughout the year, and indications point to an increasing demand for this class of securities. The increase in the Federal Income Tax has decidedly strengthened the market for municipal bonds.

At the close of the year the bond market has become less active than during recent months, due to the violent break in the stock market. Our economic position, however, remains sound fundamentally, and warrants the belief that the demand for high grade bonds will continue during the coming months. On account of large earnings, corporations are accumulating funds that should be kept in liquid form through the purchase of bonds that are readily saleable, and individuals are receiving increased incomes that will be available for safe and permanent investment.

The American International Corporation.

The first payment of $10 per share upon the capital stock of the American International Corporation was made on December 15, 1915, and subsequent payments of equal amount were made on January 15, June 9, July 10 and August 10, 1916. The average amount of capital employed for the period to December 6, 1916, was $15,841,906.25, and the earnings above organization expenses and operating expenses were calculated as $2,231,495.04. The appreciation of stocks and bonds acquired is not included, except so far as they have been disposed of. A dividend of 75 cents per share was ordered to stockholders of record December 15, 1916.

The Corporation is interested through the Siems-Carey Company, a subsidiary organization, in a contract with the Chinese government for the construction of something over 1,000 miles of railway in China, the surveys for which are being made. Negotiations are pending for a contract for dredging a portion of the Grand Canal, once an important waterway, the service of which has been much impaired by floods filling it.

The corporation has acquired a controlling interest in Carter, Macy & Company, a long established firm in the tea business, with offices in China, Japan, India and Ceylon. The business is an old one, affording an opportunity for the profitable employment of increased capital which has been supplied.

Investigation is proceeding along numerous lines into opportunities for supporting and developing American interests abroad, which is the field to which the Corporation is especially devoted.

Silver.

The London quotation upon silver has risen from about 32¼ pence in the latter part of October to 36$\frac{11}{16}$ pence, which compares with 37⅛ pence in May last, the highest point in many years. The London market is based upon silver 925 fine, which would make 36 pence the equivalent of 77.8 cents for silver 1,000 fine. The situation is strong, owing to small output in Mexico and the low state of supplies both in China and India. The demand for India and high prices prevailing last May started a considerable movement of silver from China, and now that the Chinese export season is on, the demand is strong there. The Indian currency reserves are much lower now than a year ago, while the currency issues are considerably higher, which points to a continuance of government purchases. Our advices indicate that up to the middle of October these purchases had amounted to $40,000,000 to $50,000,000. Currency notes are used in India for remittances and larger transactions. Payments to the natives for labor and the crops are in the silver rupees, and the government treasury must keep itself in position to cash the paper money. Important shipments of silver have been going forward from San Francisco both to India and China.

Present prices for silver are very remunerative to producers, and the production of the United States will doubtless show a new record for 1916.

Jacksonville Docks.

We have made mention recently of the important development that has taken place in the last two or three years in the way of supplying modern storage and terminal facilities, referring particularly to what has been done at New Orleans, Memphis, Atlanta and Seattle. Our attention has been called to similar progress at Jacksonville, Florida, where by act of the legislature the city was authorized to issue bonds to the amount of one and one-half million dollars for the purpose of acquiring sites and constructing docks, belt line, warehouses, compresses, etc. The total number of acres acquired is 144, fronting on a harbor, which is connected with the sea by a thirty-foot channel now being dredged by the Federal government. Two piers, each 1,000 feet long by 260 feet wide, are ready for business, with two steel warehouses 800 feet long by 73 feet wide. The municipal belt line connects the warehouses with all railways. The most modern cotton compresses have been installed, the fire protection is such as to secure the lowest rates of

insurance, and facilities of every kind are the best that can be provided. The entire terminal, including the belt line and warehouses, is under the management of a Port Commission, created by State law, and consisting of fifteen citizens of Jacksonville.

We can only say of this enterprise, as of the others like it, that it represents a most gratifying development. This country has been slow about organizing and providing proper terminal and warehouse facilities, but now that the movement is well started, we may expect to make rapid progress.

Price Regulation.

The demand for an embargo on wheat is less audible, but the investigation of food prices and the boycott campaigns go on with as much fervor as though high prices were not ruling in every field. It is doubtless well that there should be official inquiries in order that the facts may be authoritatively stated, but there are enough obvious facts to create the presumption that all food and materials are higher for legitimate reasons. Russia is ordinarily a natural source of food supplies for Great Britain, and these are largely cut off, resulting in greater dependence on this country and Canada. Reports to the Department of Agriculture show that on November 1st, the number of cases of eggs in cold storage was 24.2 per cent. less than at the same date of 1915, and that the stock decreased 25.1 per cent. in October. The stock of butter in storage was 14.5 per cent. less than a year ago, the stock of cheese 1.1 per cent. less, and of apples 43.7 per cent. less.

In the discussion of food prices much is said in haste, without knowledge of the facts. The storage of perishable food products is a highly speculative and competitive business, involving risk, because the weather is a large factor in the supply. It is an open field. Cold storage warehouses are usually public warehouses where any body may rent space. Every few years there is a lot of newspaper publicity over money made by the storage of products, but not so much is said publicly of the losses that occur in the same business.

When prices are high there is always indignation over the fact that products remain in storage, but how high would prices be if there were no products in storage? The fact that they are there is an influence upon prices, and the more there are there the greater the influence.

The theory of the critic is that the owner holds to make prices go up, but he usually holds because he thinks prices will go up, and it can hardly be said that there is any moral turpitude in that. All commodities are carried forward in the belief that they will be worth more at a later date, and this is a public service, because price and supply are thereby equalized throughout the year. There is no better protection to the public than an open, free market. Arbitrary interference, as by official price regulation, is simply another risk to be encountered by the dealer, which must be covered by the margin of profit. It is only justified in some great emergency, when the risks of the business become too great for individual dealers to carry, and the government may properly come forward and assume both risks and profits.

Packers' Profits.

There is no subject upon which there has been more persistent misrepresentation than that of the profits of the beef-packers, or "beef trust," although the facts are always accessible through the annual reports of the packing companies to shareholders. Mr. E. A. Cudahy, president of the Cudahy Packing Company of Chicago, in his report for the fiscal year ended October 28, 1916, shows that all sales amounted to $133,960,986, and that the net profits were $3,011,415, or about 2.2 per cent. on the turnover. He says that of the sales about $24,000,000 were of products dealt in and not derived from the animals slaughtered, including butter and eggs, cheese and cotton-seed oil products, such as soaps, cleanser, glycerine, etc. Upon dressed beef the profit during the year was less than ¼ of one cent per pound. Mr. Cudahy says:

> In the marketing of fresh meat it is quite impossible to make any very extensive profit. With exception of a relatively small amount, which is all that can be stored for more advantageous marketing, practically all fresh meat must be sold at the point to which it is shipped for distribution, and subject to whatever market condition may govern at the time. It cannot be held to await a more favorable market. The cured meats and other animal products are in many cases, distributed under our well-known and well-established trade brands, and for that reason can be marketed to better advantage than fresh meats. There is a demand for hides, cured meats, etc., from all parts of the world, which gives us many channels for distribution, and this enables us to select the most favorable time and place for their disposition. In our operations, therefore, the favorable showing made is due to a very great extent to our production and trade in other products than fresh meats.
>
> In fact, the packers are practically the collection agents of the farmer. Out of every dollar taken in from the sale of all products derived from animals, 80 cents has gone to the farmer. Out of the remaining 20 cents of each dollar, 7 cents has been paid to the wage earner, 5 cents for freight, and 4 cents for other materials needed in manufacturing and in the preparation of the goods for sale, as for instance, salt used in curing, boxes, barrels, tin cans, etc. Out of the remaining 4 cents there have been paid interest, taxes, insurance, repairs and all such items, and of the residue not quite 2 cents per dollar applies to the net profits of the company.

These figures are in line with the usual results of the business, as shown from year to year by other company reports, and confirmed by the government's investigations.

Regulation of Profits.

The proposals to put an embargo on wheat and to regulate the prices of food in the interest of the wage-earning population, bring a prompt response from the farmer. We have received the following letter, presenting a counter proposition:

New Lexington, Ohio,
November 27, 1916.

National City Bank,

Dear Sir:—Government supervision of the profit-making of corporations, etc., of the city so as to enable the farmer to pay as much in wages *to his* employes as city corporations can pay, would reduce cost of living and that of all farm products.

Labor sells its time to the highest bidder and leaves the farm. Farm produce, or food, thereby becomes short supply, *and therefore* high in price.

In this there should be government supervision, in the profit making of the corporations, and not in the price of wheat.

Supervising and lowering price of food cannot increase quantity or food value of wheat—or any other food. Yours,

(Signed) FARMER.

Large profits are not the rule in the cities. We would refer our correspondent to the report of the Federal Trade Commission, showing that a large proportion of the corporations make no profits at all. "Farmer" probably has in mind such concerns as the Ford Motor Company, which make exceptional profits and pay exceptional wages. But the Ford Company gets its ability to pay high wages, not from high prices on its products, but from great efficiency in production. It has been a leader in reducing the price of motor cars. Shall it be penalized for this policy? Shall we have an adjustable tax that will clip off all the additional profits which any man can make by improving the methods of production? Unfortunately our correspondent is not the only person who thinks something of the kind should be done. The idea is cropping out everywhere, and dictating much of our legislation. It would be worth an inestimable amount to the people of the United States to understand the source of profits and of fortunes.

A farmer out in Washington State is said to have raised on an 18-acre field a crop of wheat averaging 117 bushels per acre. The average over the United States is 17 bushels per acre. Ed. Howe, the philosopher of Potato Hill, Kansas, says: "If that farmer has a right to raise more wheat than the average, then any other man has a right to prosper more than the average."

This question, however, does not concern merely the individual's right to prosper. The progress of the community depends upon the freedom and the incentive of the individual to plan, to strive, to devise, to initiate, to prosper, and to use the fruits of his prosperity over and over in accomplishing greater results as long as he lives.

Right of Labor and Property.

Among the resolutions adopted by the American Federation of Labor at its recent annual convention in Baltimore was one reading as follows:

Your committee would further recommend that it be the sense of this convention that it seems to be the settled purpose of interests antagonistic to the freedom of men and women who labor to persuade and then use the judiciary to misconstrue constitutional guaranties, and thereby nullify legislative enactments so as to leave but one remedy, and we, therefore, recommend that any injunctions dealing with the relationship of employer and employe, and based upon the dictum, "Labor is Property," be wholly and absolutely treated as usurpation and disregarded, let the consequences be what they may. Such a decision as that rendered by the Supreme Court of the State of Massachusetts has its roots in class interests; it is usurpation and tyranny. Freedom came to man because he believed that resistance to tyranny is obedience to God; as it came so it must be maintained. Kings could be and were disobeyed, and sometimes deposed. In cases of this kind judges must be disobeyed, and should be impeached.

The decision which called out this extraordinary declaration was rendered in a case arising out of a conflict between rival labor organizations. A union of hod-carriers, affiliated with the I. W. W., brought an action in the courts of Massachusetts complaining that another union of hod-carriers, affiliated with the American Federation of Labor, had used unlawful pressure, by threats of sympathetic strikes and otherwise, to prevent the plaintiffs from obtaining employment, and in some instances had procured their discharge from employment. They asked for an injunction, and the defendant union set up a recent state law which declared that the right to labor and to make contracts to work shall not be treated by the courts as a property right which can be protected by the injunction process. The supreme court held unanimously that this act was a violation of the Constitution of the United States and of the Constitution of Massachusetts. The ruling is sufficiently set forth by the following extract:

If a laborer must stand helpless in a court while others there receive protection respecting the same general subject which is denied to him, it cannot be said with a due regard to the meaning of constitutional guarantees that he is afforded "the equal protection of the laws" within the Fourteenth Amendment to the Constitution of the United States and similar provisions of our own constitution. The right to make contracts to earn money by labor is at least as essential to the laborer as is any property right to other members of society. If as much protection is not given by the laws to this property, which often may be the owner's only substantial asset, as is given other kinds of property, the laborer stands on a plane inferior to that of other property owners.

The idea that there is any violation of natural rights, or degradation of labor, in this decision will strike the ordinary reader as very strange. The language of the resolution would be more appropriate if the decision had been to the contrary.

STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS DECEMBER 22, 1916.

(In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco	Total
Gold coin and certif's. Settlement fund. Cr. Balances	11,552	151,752	14,042	15,386	4,665	5,555	28,390	9,982	8,584	5,550	4,864	9,305	269,627
Gold Settlement Fund	18,606	19,826	15,105	17,434	19,231	5,939	29,428	3,319	6,562	18,065	14,574	10,692	178,811
Gold Redemption Fund...	50	250	100	45	221	303	200	104	30	104	62	10	1,479
Total gold reserves..	30,208	171,828	29,247	32,865	24,117	11,797	58,018	13,435	15,176	23,719	19,500	20,007	449,917
Legal tender notes, Silver certf's and Sub. coin....	165	2,870	77	514	10	[illegible]	483	1.321	172	48	194	62	6,025
Total Reserves......	30.373	174,698	29.324	33.379	24,127	11,906	58,501	14,756	15,348	23,767	19,694	20,069	455,942
5% redemption fund—F. R. bank notes..............										300	100		400
Bills discounted, Members Commercial paper........	6,081	4,345	5,991	[illegible]	2,902	3,366	3,600	1,460	1,952	479	845	281	32.297
Bill bought in open market	10.947	41.510	13 909	9,750	3,404	4,693	8,834	6,988	6.039	4.075	2,036	12.448	124,633
Total bills on hand..	17.028	45.855	19.900	10,745	6,306	8 059	12.434	8,448	7 991	4 554	2,881	12,729	156.930(c)
Investment U. S. Bonds...	1.332	1,043	1.651	7,361	1,126	1,710	8,458	2,203	2,442	9,216	4,328	2,634	43,504
One-year U. S. Treas. notes	1,000	1,205	1,174	613	1,070	824	1,517	891	700	[illegible]	705	500	11,167
Municipal Warrants.......	920	1,750	719	2.682	61	402	1,390	729	672	164	127	941	10,557
Total Earning Assets	20,280	49,853	23.444	21.406	8,563	10.995	23,799	12,271	11,805	14 897	8.041	16.804	222 158
Federal Reserve Notes, net	810	12,213		686			1,114		2,071			2,342	19,236
Due from other F.R. Banks net.....................	6,032	5,570	237	3,724	1,133	1,989	15,020	9,494	566	1,599	66	2,518	49.318(b)
All other resources........	25	163	255	207	54	718	600	277	14	138	558	497	3,506
TOTAL RESOURCES.....	57,520	243,747	53.360	59,402	33,877	25,608	99,034	36.798	29,604	40,701	28.479	42,230	750,560
LIABILITIES													
Capital Paid in............	4,990	11,914	5,228	6,022	3,346	2,480	6,635	2.796	2,610	3,070	2,695	3,929	55,765
Government Deposits.....	2,365	5.520	3,167	986	2,403	3.760	2.515	2,665	912	157	1,461	3.301	29,472
Reserve Deposits, net.....	49,914	226,177	43,629	52,394	21,381	15,750	89,759	27,217	26,252	35,484	22 822	34,938	648.787
Federal Reserve Notes-net			1,154		3,456	3,533		4,120		1,990	1,501		15,754(a)
Federal Reserve Bank Notes in circulation.....													
Due to other F. R. Banks net......................													
All other Liabilities.......	251	136	182		31	55	35		30			62	782
TOTAL LIABILITIES.....	57.520	243.747	53.360	59 402	33,877	25.608	99,034	36.798	29 604	40.701	28.479	42.230	750,560

(a) Total Reserve notes in circulation 275.046

(b) After deduction of items in transit between Federal Reserve Banks, 49.318, the Gold Reserve against Net deposit and note Liabilities is 69.8% and the cash reserve is 70 7%. Cash Reserve against net deposit and note liabilities after setting aside 40% Gold Reserve against net liabilities on Federal Reserve Notes in circulation 71.3%.

(c) Maturities of bills discounted and loans: within 10 days, 24,348; to 30 days, 47,381; to 60 days, 49,375; other maturities, 35,826; Total: 156,930.

Federal Farm Land Banks.

The Farm Loan Board, appointed under the provisions of the Federal Farm Loan Act, has announced the division of the country into twelve districts, and the designation of twelve cities for the location of Farm Loan Banks, as follows:

District No. 1—Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut, New York and New Jersey. Location of Federal land bank, Springfield, Mass.

District No. 2—Pennsylvania, Delaware, Maryland, Virginia, West Virginia and the District of Columbia. Land Bank at Baltimore, Md.

District No. 3—North Carolina, South Carolina, Georgia and Florida. Land bank at Columbia, S. C.

District No. 4—Ohio, Indiana, Kentucky and Tennessee. Land bank at Louisville, Ky.

District No. 5—Alabama, Mississippi and Louisiana. Land Bank at New Orleans, La.

District No. 6—Illinois, Missouri and Arkansas. Land bank at St. Louis, Mo.

District No. 7—Michigan, Wisconsin, Minnesota and North Dakota. Land bank at St. Paul, Minn.

District No. 8—Iowa, Nebraska, South Dakota and Wyoming. Land bank at Omaha, Neb.

District No. 9—Oklahoma, Kansas, Colorado and New Mexico. Land bank at Wichita, Kan.

District No. 10—The State of Texas. Land bank at Houston.

District No. 11—California, Nevada, Utah and Arizona. Land bank at Berkeley, Cal.

District No. 12—Washington, Oregon, Montana and Idaho. Land bank at Spokane, Wash.

The Federal Farm Loan Board will now advertise for 30 days for subscriptions to the capital stock of the twelve district farm loan banks. At the end of the period allowed for taking up the stock of the banks, the Government will take the amount of unsubscribed stock. The board then will appoint five Directors and the officers of each bank, after which the banks will be open for business.

1917

Economic Conditions
Governmental Finance
United States Securities

NEW YORK, FEBRUARY, 1917.

General Business Conditions.

THE first month of the new year has given good promise for a continuance of prosperity. The leading industries of the country made large profits last year, and are in a very strong position financially. Indebtedness has been paid or reduced, working capital has been increased, capacity has been enlarged and efficiency improved by expenditures in many instances long contemplated and finally made possible by the unusual earnings. Collections have been exceptionally good, and the bank clearings for the month have been about one-third larger than for the same month last year, which were record figures at that time. The outlook for business is excellent, with bookings of firm orders sufficient to assure general industrial activity well into the last half of the year. It is noteworthy that machinery manufacturers in all lines are full of orders and receiving more, showing that the industries are still intent upon increasing capacity.

Factors in the Situation.

The talk of peace has had less effect upon trade than upon the stock market, but this does not signify that the probable effects of peace upon industry are disregarded. It is accepted as a matter of course that a considerable readjustment of prices will be necessary and the demoralizing influence of falling prices are fully appreciated. Nobody wants to have any more goods on hand when the decline comes than are absolutely necessary, and manufacturers are buying materials and dealers are buying stock with that thought uppermost, but current trade is on the largest scale ever known and provision must be constantly made for it. There is not as much excitement in the markets as there was a year ago at this time, when there was considerable overbuying, but staple goods are moving satisfactorily and prices are sustained.

The most talked of factor in the situation is the car shortage, or rather the general inadequacy of transportation facilities, which results less from an actual shortage of cars than from inability to keep the traffic moving freely. An enormous amount of inconvenience and loss has been experienced all over the country, and while a year ago a similar state of congestion was attributed to a lack of ships at the Atlantic ports, in recent weeks ships have been held under demurrage charges waiting for the delivery of loaded cars. The situation, instead of being a temporary and passing one, seems to be due to the unparalleled expansion of industry, which has produced a volume of freight beyond the loading, unloading and warehousing facilities of the public, and the switching and terminal facilities of the railways. The railways have been ordering new cars freely of late but it is doubtful whether a mere increase of cars will give relief. The situation requires comprehensive treatment, and illustrates again that the most important feature of the American railway problem is always the making of adequate provision for the growing traffic.

The report of the Committee of the Foreign Trade Council upon the amount of reconstruction work to be required in Europe after the war submits estimates aggregating approximately $6,000,000,000. This includes factory equipment as well as buildings and public improvements. The larger part of this expenditure will, of course, be made locally for labor, but lumber and machinery will be wanted from the United States, and the demands upon the industries of Europe will affect their competition with American industries in other markets.

Importance of the Crops.

Great importance will attach to the crops of the coming season. If they are fortunately abundant, the costs of living, now oppressively high, will be reduced, and the entire industrial situation correspondingly relieved. It is assumed as a matter of course that the farmers, being fully as much interested as anybody in large crops, will exert themselves to the uttermost, and that the rest hangs upon the favor of Providence, but when so much depends upon a good outcome it is not out of place to suggest that every public and private agency which can give aid to the farmer should feel an obligation to do so. It is particularly desirable

that every locality should so far as practicable make itself independent in such food supplies as it can produce. It is usually the case that a one-crop region can grow a moderate variety of foodstuffs with labor that would otherwise count for but little, and if more attention was given to making each section self-supporting in this respect, the net results the country over would be very important.

There never was greater encouragement to the farmers to do their utmost for the production of a large yield. The country will be swept practically bare of all grain before another crop is harvested. The accumulations of wheat from the big crops of 1914 and 1915 will all be gone, and the same will be true of corn and food stuffs generally. Cattle have been sacrificed freely rather than feed them corn worth nearly $1.00 per bushel. Live hogs have been selling this month on the Montreal market above $14 per hundredweight, and in the principal markets of this country at $11.50 to $12.00. The stocks of cotton will be low and whether war or peace is to rule next year, a good crop of that staple will be wanted. The farmers of the United States have a great opportunity before them this year; the situation is such that they can hardly fail of good prices for every product.

The metals are stronger, particularly lead and silver. The latter is up close to the high mark made last May, the main influence being purchases in London for India, coupled with the decline of the Mexican production. A considerable quantity of silver has been exported from China to India, and general trade conditions have been adversely affected by this movement, and by the high prices for commodities which high priced silver entails.

Building operations reached record proportions in 1916, and at present the outlook is for another equally active year. The prices of all building materials are very firm or still tending upward.

The Money Market.

Following the pronouncement of the Federal Reserve Board against an issue of British Treasury bills in this country, gold shipments to New York for the purpose of creating credits were resumed on a large scale, the imports for the month of December aggregating $158,375,045. As the movement from this city to the interior ceased about the first of the year, and as there has been a considerable return flow since, the net result has been to create the largest reserves ever held here. The change in the situation since call money touched 15 per cent., early in December, has been phenomenal.

The principal items of the New York Clearing House statement on the last Saturdays of January, 1916 and 1917, are as follows:

	Jan. 27, 1917	Jan. 29, 1916
Deposits	$3,767,409,000	$3,523,185,000
Loans	3,473,979,000	3,273,000,000
Cash in vault	550,945,000	525,749,000
Reserve in depositories	262,662,000	232,138,000
Excess reserve	191,383,610	177,801,740

The figures for the Federal Reserve Bank of New York for corresponding dates are as follows:

	Jan. 26, 1917	Jan. 28, 1916
Deposits	$249,745,000	$201,098,000
Discounts	29,106,000	10,663,000
Investments	5,667,000	7,060,000
Cash reserve	204,352,000	175,386,000
Notes in circulation	88,563,000	69,055,000
Gold with agent	107,490,000	94,240,000

The year starts out with money much the cheapest commodity or form of capital in sight, and if the business community attempts to use these abundant supplies the effect will be to lift wages and the prices of all materials still higher. Already complaints are coming from manufacturers that profits are being curtailed by rising costs, and some people who were perfectly sure a year ago that the country could not have too much gold are now not so sure upon that point. The circle of rising wages and prices narrows as it moves upward, because everybody's income and purchasing power does not increase in the same proportion, and prudent men hesitate to make capital investments on an inflated basis. The statements of country banks show that they have more deposits than they have use for in their own localities. Their reserves are more than twice the legal requirements, and notwithstanding the transfers to the reserve banks during the past year they have more now remaining with their old reserve agents than they ever had with them before.

There never was a clearer case of a country gorged with money. The situation is about the same in the Scandinavian countries, but there it is on a comparatively small scale, more easily comprehended, and the importation of gold has been either prohibited or penalized. Persons who have credits abroad are told not to bring gold home, but to either bring commodities which will relieve the stress of high prices, or invest their capital abroad. When every available man and machine is already at work, what more can be done with money? It becomes a stimulus to inflation instead of an aid to industry.

Business has been so good during the past year that a great many producers have accumulated large profits and are more independent of borrowing facilities than heretofore. They are conservative about dividends, and intend to keep themselves forehanded. At present they are needing more liquid capital than ever before to handle current business on account of the high prices, but as the crest of the industrial boom passes and prices begin to subside, it will appear that a great surplus of money exists in this country.

Under the circumstances money promises to be in abundant supply, but if bankers have a proper regard for their responsibilities it will not be correspondingly cheap. The tendency to expansion is beyond the control of the Federal Reserve Banks, because the member banks have little occasion to use their services, and it rests with the banks doing business directly with the public to hold the country to a conservative course. Compensatory rates for money and ample reserves should be consistently maintained.

How much more gold will come to us we cannot tell, but doubtless it will continue to come unless we lend credit to effect the trade settlements. There is no sign of an exhaustion of the foreign stocks, and the world outside of the United States is producing gold from the mines at the rate of about $400,000,000 per year, of which $300,000,000 is from British and Russian territory. The medium of payment which best suits our circumstances is short obligations which will give a call on Europe for gold in the period following the war. Upon this students of the subject are generally agreed.

Trade Balance and Exchanges.

The balance in favor of the United States in foreign trade, including exports and imports of silver, for the calendar year 1916, was $3,127,516,344. Merchandise imports increased $620,000,000 and merchandise exports $1,939,000,000 over the calendar year 1915, when the balance was $1,795,189,082. We have become so accustomed now to enormous figures that we scarcely realize how abnormal these are, or what a problem they present in the exchanges. Foreign loans excluding renewals were placed in this country during the year to the amount of $1,217,464,764.

The net importation of gold was $529,951,671. According to the definite records, therefore, there remained about $1,380,099,909 to be settled otherwise. The interest and dividend payments upon American securities held abroad, are a smaller factor than formerly, and offset more or less completely by similar items coming to us on account of foreign securities now held in this country. The earnings of foreign shipping have been very large during the past year, and we have had to settle for the freights on imports. Remittances to friends have probably amounted to an important sum, but there is little available basis for an estimate. American banks have probably increased their balances or loans in London during the year, but the chief element in balancing the account has undoubtedly been the sale in this market of American securities for account of foreign owners.

One way or another the payments involved in this huge account have been made. It has been accomplished mainly through London, and sterling exchange during most of the year has been closely held around $4.76 for demand and cables. Gold has been forthcoming wherever necessary, but the visible stock of gold in the Bank of England is higher now than a year ago. It is known that much of the importation on London account has come from the current production of mines in the British colonies, but doubtless the reserves of the London joint stock banks have been drawn upon, and the Bank of France is understood to have made contributions.

The British Government has continued the mobilization of foreign securities owned by its citizens, and after first offering compensation for their use under a loan agreement, and then levying a discriminatory tax, it has now given notice that steps will be taken to commandeer them. A large amount of securities, either purchased or borrowed by the government, has been transferred to the United States and is available here as a means of supporting sterling exchange.

French exchange has been within narrow limits of late, at about 5.83⅜ for cables and 5.84⅜ for checks. Italian exchange has been unsettled and lower within the last week, at about 7.16 for cables and 7.17 for checks. Roubles have been lower at about 28¾ to 28⅝. The Holland and Scandinavian exchanges have been steady at a little above par.

Exchange on Berlin and Vienna has been unsettled and affected by the discussion over peace. Early in the month marks were quoted at 71¼ for cables, and on the 18th there were transactions at 68⅛, since when the quotations have moved up to 69¼. Kroners have moved in sympathy with marks and are now quoted to be at 11.05, cables.

Foreign Loans in 1916.

The list of foreign loans publicly offered and placed in the United States during the year 1916, according to our records, were as follows:

GREAT BRITAIN.	
Two-year 5% Collateral	$250,000,000
Three-Five year 5½% Collateral	300,000,000
5% Banking Credit (Renewed in June, 1916)	50,000,000
Metropolitan Water Loan	6,400,000
City of Dublin	2,000,000
Wheat purchase credit	25,000,000
	$633,400,000
FRANCE.	
Three year 5% col. notes	$100,000,000
Commercial credit	50,000,000
Three. Bonbright credits	45,000,000
Brown Bros. Credits (replacing $20,000,000)	25,000,000
City of Paris	50,000,000
French Municipals	36,000,000
	$306,000,000
RUSSIA.	
Three year 6½% Bonds	$50,000,000
One year 5% Treasury Notes (Renewed in 1916)	11,000,000
Five year 5½% Bonds	25,000,000
	$86,000,000
ITALY.	
One year 6% Notes—Extended in 1916	$25,000,000
CANADA.	
Five-ten-fifteen year 5% Bonds	$75,000,000
Provincial, municipal and corporation Loans	101,943,764
	$176,943,764
NEWFOUNDLAND.	
5% three year Bonds	$5,000,000

LATIN AMERICA.

Argentine:—	
Discount notes	$26,000,000
" "	18,500,000
" "	5,150,000
" " Renewal	16,800,000
	$66,450,000
Sau Paulo 6's	$5,500,000
Chile Bank Loan	6,000,000
Valparaiso Water Loan	471,000
Antofagasta Ry. Notes	3,000,000
	$14,971,000
Uruguay Ulen Contract	$5,000,000
" One year Notes	2,500,000
Bogota City	5,000,000
	$27,471,000

ASIA.

China—Canal Loan	$4,000,000
6% Govt. Loan—China	5,000,000

NORWAY.

Seven year 6's	$5,000,000

SUMMARY.

Great Britain	$633,400,000
France	306,000,000
Russia	86,000,000
Italy	25,000,000
Canada	176,913,764
Newfoundland	5,000,000
Other South America	27,471,000
Argentine	66,450,000
China	9,000,000
Norway	5,000,000
	$1,340,264,764
Less renewals	122,800,000
	$1,217,464,764

The total of all foreign loans, publicly offered, placed in this country since the beginning of the war, according to our record, is $2,214,517,375, of which $173,350,000 have been paid off or refunded, leaving $2,041,167,375 outstanding at the close of 1916.

Bond Market.

Several large bond issues and other important corporate financing were announced in the first month of the new year. The United Kingdom of Great Britain and Ireland has sold to a strong banking syndicate its third secured short term loan issued in this country. The present issue is for $250,000,000 bearing 5½% interest, $100,000,000 payable February 1, 1918 and $150,000,000 February 1, 1919. The notes are convertible at any time before maturity into 20-year 5½% bonds of Great Britain and Ireland, payable February 1, 1937 and not subject to prior redemption. The principal and interest of the notes and of the bonds into which they may be converted are payable in New York in U. S. gold or in London in sterling at the fixed rate of $4.86½ to the pound, without deduction for British taxes. The notes are secured by stocks, bonds or other securities having an aggregate market value of 120% of the notes issued. The securities pledged are composed of American securities, including those of the Canadian Pacific Railway Company, securities of neutral countries and of dominions of the United Kingdom of Great Britain. The notes are being offered on a 6% basis for both maturities. Considering the value of the collateral pledged, the convertible privilege, the high credit of the issuing government and the payment of the principal and interest in the United States, these notes are regarded as one of the most desirable short term investments in the present market.

The United States Rubber Company has sold to New York bankers a new issue of $60,000,000 First and Refunding 30 year 5% bonds. These bonds were offered to the public at 96¾ and interest to yield about 5.21%. The Company in the last few years has planted a large number of rubber trees on its plantations in Sumatra and will therefore enjoy a very favorable position in regard to its raw material.

The Central Argentine Railway has sold to a group of New York bankers $15,000,000 10-year 6% convertible notes to retire an equal amount of notes maturing in London. This Company was organized in 1863 and now operates about 3,300 miles of road. The notes are convertible after one year into the Company's ordinary shares at par. The Company is one of the best managed and most profitable of Argentine Railways, enjoying excellent credit. Sixty-eight per cent. of the Central Argentine's capitalization is composed of capital stock giving the Company a very sound financial structure. The new convertible notes have not yet been offered to the public.

The Chicago, Milwaukee and St. Paul Railway Company has also sold to New York bankers $25,000,000 of its General and Refunding Mortgage bonds. The present issue will bear interest at the rate of 4½% and has been sold to provide funds for future capital needs, including further electrification of the Pacific extension. The St. Paul system in recent years has taken an advanced position in electrifying its line and at present has 420 miles successfully operated by electricity. St. Paul bonds have long been a favorite with conservative investors and the present issue has been eagerly sought at the offering price of 96½ yielding 4.68 per cent.

The Pennsylvania Railroad Company will ask its stockholders at the annual meeting to be held March 13 to approve an increase of $75,000,000 in the authorized indebtedness of the company. It is announced that this increase will enable the company to issue either general mortgage bonds or capital stock that has heretofore been authorized, as may be necessary to provide for the company's capital requirements in the near future, including maturing obligations.

The general level of bond prices continues to hold firm. The average price of forty listed bonds as compiled by the *Wall Street Journal* was 96.11 January 26th compared with 94.97 December 26th. The advance has been especially noticeable in railroad issues. Sales on the New York Stock Exchange continue fairly active in about the same volume as in December, but considerably below November and October.

Government Revenues.

The disbursementss of the Treasury from July 1, 1916, to January 26, 1917, exceeded receipts by the sum of $147,641,408.70, and the worst for the fiscal year is yet to come. The cash balance in the Treasury, which on January 26th was $92,762,206, is more than offset by the sums which are subject to the drafts of disbursing officers and the amount held for the redemption of national bank notes.

It is evident that more money must be provided, either by taxation or loans, and the majority party has determined in caucus to employ both methods. The new taxation proposed consists of an increase in the present levy upon estates, which is calculated to yield about $22,000,000, and an excess profits tax which is to consist of eight per cent. upon the net income of all corporations and partnerships in excess of eight per cent. This tax is a leaf out of the emergency legislation of the nations at war. It is calculated to yield about $226,000,000. The Secretary of the Treasury is authorized to dispose of the Panama Canal bonds remaining unsold, $231,000,000, and to sell $100,000,000 of a new issue of bonds bearing 3 per cent. interest, besides which the limitation upon the issue of 3 per cent. certificates of indebtedness is raised to $300,000,000. Altogether, these resources are estimated as making $889,000,000 available.

In the discussion which preceded the caucus a lowering of the limit for incomes subject to the regular income tax appeared to have some consideration, but the caucus measures adopted by a vote of 111 to 13 gives no place to it. The avowed reason for this policy is that the business interests of the country were responsible for the agitation for "preparedness," and should be made to pay the cost. The obvious answer to this plea is that if these expenditures, including the cost of maintaining the troops on the Mexican border, are not in the interest of the whole country, they ought not to be made, and if they are in fact proper legislation for the national defense there can be no justification for putting them entirely upon a few people, or a limited section of the country. It is right that taxes should be levied with proper regard for ability to pay, but people who have incomes exceeding $2,000 per year can afford to pay some share of all taxation, and in the interest of good government it is best that they should have a direct interest in all proposals for taxation.

There will be less objection to the new taxes among those who pay them than to the spirit in which they are levied. There is an evident assumption in some quarters that they will come out of New York, and the other large cities, and that nobody else will suffer. Of course, this is a mistaken notion. The sections which are said to be exempt are constantly looking to New York for capital for their development, and any reduction in the capital fund by which the progress of the country is financed retards the growth in which all are interested.

Federal Reserve Amendments.

The Federal Reserve Board has submitted to the appropriate committees of Congress certain recommendations for amendments to the Federal Reserve Act, and bills have been introduced in both houses in conformity thereto.

In the main, these recommendations are in line with the arguments which have been offered in this publication upon the desirability of concentrating a larger share of the gold stock of the country in the reserve banks, where it will serve either as a basis for domestic credit, within the discretion of the reserve authorities, or as a fund from which gold may be drawn for export as occasion requires. The effectiveness of the reserve system is very largely in its psychological influence, and this will be greatly enhanced by the presence of a stock of gold which beyond all question is sufficient to meet any possible demands upon it. There are wide differences of opinion as to how much gold will be wanted for export after the war; it depends largely upon how much more comes to us before the war ends, and upon various other factors, indeterminable with any degree of accuracy at this time. It is inevitable that there should be apprehension on the subject, and important that they be as completely allayed as possible.

The Dual Organization.

At present the gold held by a reserve agent against notes outstanding is treated as having practically accomplished the redemption of the notes, and neither the gold nor the notes appear in the balance sheet of the bank. It is in this respect the dual organization of the Bank of England, but illogically so, because in the case of the latter new issues are permitted only against gold, while with our reserve system only a 40 per cent. gold reserve is required, and it need not be in the hands of the reserve agent. The commercial paper held by the reserve agent is treated as collateral, and included in the balance sheet of the bank. There is no good reason for this difference between the treatment of the paper and gold in the hands of the agent. Both are a form of collateral, pledged specifically for the security of the notes, and both should be included in the statement of assets with the notes included in liabilities. The statement would then be comparable to that of the Bank of France, Bank of Germany, Bank of the Netherlands, and others.

The present division of the gold reserves deprives them of their full value. There is no real distinction between the notes outstanding against

gold in the hands of the reserve agents and notes outstanding against gold in the vaults of the bank, and the bank will redeem either from its vault holdings.

The Board recommends this change, and that the reserve agent be authorized to issue the reserve notes directly against deposits of gold, but the House Committee has voted against it. The Advisory Board supports the proposal.

Change in Reserves.

A further and important change is proposed in the reserve requirements. At the last session of Congress an amendment was secured giving the member banks discretion to keep in the reserve banks any part of the reserve moneys which they had been previously required to keep in their own vaults. This was for the purpose of increasing the gold holdings of the reserve banks, but as the requirements of the law as to vault cash had been no greater than what bankers usually thought necessary, the results of the amendment were not important. There is a growing feeling that something more should be done to forward the concentration of gold, and sentiment has rapidly developed in favor of making reserve notes good in the reserves of member banks. Opposition exists, however, and the reserve board is understood to be divided on the subject, and out of this situation has developed a compromise proposition.

The Board recommends that member banks be required to keep five per cent. of their demand deposits on hand in any form of cash, which would include Federal Reserve notes and national bank notes, but would reduce by this amount the present total requirements, and provide that nothing else shall count as reserve excepting credit at a reserve bank. The House Committee has voted to make no requirement as to vault reserves or till money, but fixing the reserve required in reserve banks as proposed by the Reserve Board.

The Advisory Board has recommended that the allowance for till money shall be not less than six per cent. of demand deposits, and it is believed that even this will be small for many banks which are obliged to provide cash for important pay rolls, and also for banks which are located at a distance from a Federal reserve bank. Such banks of course may carry what till money they require, but it will be a hardship not to have it count in their reserves. It is proposed to have the final transfer of reserves to the Federal reserve banks take place at once, instead of in November next, and to this there is general assent.

Authority Over Reserves.

Another recommendation by the Reserve Board is that it be granted authority, in its discretion, to require an increase in the statutory reserves of the member banks, to not exceeding 20 per cent., such an order to apply alike to all banks in a given district. It is not clear that there is any necessity for this change. The Board now has authority over the discount rate, which in all countries is considered a satisfactory agency for the control of reserves. The system is new, and yet has the task of winning over to membership the great body of state banks and trust companies. Changes of this character in the law are calculated to cause bankers to hold off from joining, to see what else will follow, and how all the new proposals will work. If the program for the increase of the gold stock in the reserve banks is carried out, the reserves of the member banks will be ample.

The Advisory Board has acted unfavorably upon this recommendation, and the House Committee has voted it down.

Abraded Gold Coin.

There is in the hands of the banks and in circulation, particularly on the Pacific Coast, a considerable amount of gold coin which has been outstanding for many years, and is worn down below the weight at which it is a legal tender for its face value. The Treasury will only receive it at a discount, and as the average man is unwilling to bear the loss simply because he happens to be the last holder, it avoids Treasury offices, and continues to circulate by public tolerance at full value. All countries have had situations of this kind, and the only remedy for them is by having the government assume the loss for a limited period in order to bring its coin up to standard. If an act was passed making such coin receivable at the treasury for six months at its face value, it would pour in, and if payment was made through the reserve banks, it would probably result in a considerable increase of their gold holdings.

Gold and Silver Certificates.

For many years gold certificates were not issued in denominations of less than $50, and down to about ten years ago they were not issued in denominations of less than $20. The law does not require their issuance in denominations under $50, but as the demand for small notes has increased with the growth of population and business, the silver certificates and United States notes have been steadily reduced to fives, twos and ones, and the tens and twenties have been supplied in gold certificates. It is mainly in these denominations that the gold certificates have entered into circulation. If they were converted into larger denominations, and their place in circulation filled by Federal reserve notes, the general plan of accumulating gold would be forwarded.

The silver certificates and silver dollars are now an anomalous element in our monetary system. They were issued in an effort to maintain silver as standard money, and that effort has been abandoned, leaving us with an over-valued cur-

rency which is not expressly convertible into the standard money in which international payments are made. The saving feature of the situation is that the country has grown until they are practically all serviceable and needed as change money. Before many years they can all be absorbed as one dollar bills, and scattered from one side of the country to the other they are not likely to give much trouble. The logical thing to do would be to limit their legal tender character to payments not exceeding $50 or $100. This would make them definitely a token currency, and dispose of the idea, still more or less current abroad, that obligations in the United States are subject to payment in silver.

Clearing House Settlements.

The statute books still carry a memento of the silver controversy in the form of an act passed in 1882 providing that no bank should be a member of a clearing house association in which gold and silver certificates were not acceptable in the settlement of balances. Mr. Pierre Jay, Federal Reserve Agent at New York, in a recent address, took occasion, in describing the clearing system of the Federal reserve banks, where all settlements are in gold, to urge that in order to support the reserve banks properly, all settlements between them and local clearing house associations should be in gold. The New York reserve bank is known to have suffered no little annoyance from the fact that it has been obliged to receive large amounts of non-gold currency from the New York Clearing House, while compelled to settle with other reserve banks in gold.

The Greenbacks.

The Reserve Board has made no proposal as to the greenbacks, probably preferring to first accomplish the program considered immediately pressing. But it may be assumed that the friends of the Federal reserve system look forward to the time when Federal reserve notes will constitute the only form of paper currency in the country. Whatever profit there may be in supplying the currency would still find its way to the Treasury through the excess profits of the reserve banks, and a single style and form of paper money is preferable to the variety we now have. The function of issuing and redeeming paper money in the various denominations is more conveniently and certainly discharged by the banking system than by the Treasury. The government should arrange with the reserve banks to assume responsibility for the redemption of the greenbacks, turning over to them the $150,000,000 gold reserve and making settlement by some form of obligation for the remainder.

Mr. Jay, in the address referred to above, pointedly said that "the government is the worst kind of an agency to maintain a non-gold currency on a parity with gold," and recalled the experiences of 1893-6 and of 1914. It usually happens in a financial crisis that public revenues fall off and the Treasury is not only unable to help itself, but is an element of weakness in the general situation.

The latest Treasury statement, showing the various paper constituents of our complicated currency system and the denominations of paper money outstanding, is of interest in this connection, and given below:

PAPER CURRENCY OUTSTANDING DECEMBER 30, 1916

Denominations.	United States Notes	Treasury Notes of 1890	Federal Reserve Notes	Federal Reserve Bank Notes	National Bank Notes	Gold Certificates	Silver Certificates	TOTAL
One dollar	$1,814,755	$343,929	....	....	$342,099	....	$217,911,838	$220,412,621
Two dollars	1,356,443	211,671	....	....	163,410	....	66,914,949	68,646,473
Five dollars	242,064,505	495,460	$102,896,570	$1,978,500	112,159,765	....	181,116,842	640,711,642
Ten dollars	74,182,216	558,750	99,767,200	5,736,650	310,959,940	$415,947,840	9,754,991	916,907,587
Twenty dollars	6,481,972	249,190	74,266,500	4,110,880	239,189,160	322,690,424	9,642,600	656,630,726
Fifty dollars	1,590,825	9,900	9,893,800	....	29,292,850	65,974,755	7,676,660	114,438,790
One hundred dollars..	2,462,300	101,100	13,286,200	....	36,249,200	95,356,150	297,120	147,752,070
Five hundred dollars.	2,593,000	....	....	....	88,000	26,511,000	17,000	29,209,000
One thousand dollars.	15,125,000	74,000	....	....	21,000	122,461,500	16,000	137,697,500
Five thousand dollars.	....	....	....	....	....	124,685,000	....	124,685,000
Ten thousand dollars.	10,000	....	....	....	....	883,260,000	....	883,270,000
Fractional parts	....	....	....	....	55,726	....	....	55,726
TOTAL	347,681,016	2,044,000	300,110,270	11,826,030	728,521,150	2,056,886,669	493,348,000	3,940,417,135
Deduct:								
Unknown, destroyed .	1,000,000	....	....	....	....	....	....	1,000,000
Held in Treasury...	5,409,462	8,812	2,092,945	61,535	18,007,794	134,810,040	16,552,387	176,942,975
Held by Federal Reserve Agents	....	....	....	....	....	262,046,600	....	262,046,600
Redeemed but not assorted by denominations	....	....	....	....	1,695,910	....	....	1,695,910
NET	341,271,554	2,035,188	298,017,325	11,764,495	708,817,446	1,660,030,029	476,795,613	3,498,731,650

War Finances.

Since the 4½ per cent. loan of June, 1915, the British Treasury has confined its borrowing at home to Exchequer bonds running not over five years, Treasury bills and various other forms of short-term obligations. During the past month it has brought out a new long-term loan, unlimited in amount, and into which the 4½ per cent. loan and short-time obligations

are convertible. The Government has given variety to this offering by allowing the investor to bargain for exemption from the income tax if he has apprehensions of higher exactions from this source, and by several innovations that are calculated to stimulate interest.

The regular issue is at 5 per cent., price 95, due date June 1, 1947, redeemable at the option of the Government at the end of 12 years. The yield is 5¼ per cent. This issue is subject to the income tax. As an alternative the subscriber may take a bond free from the income tax, paying 4 per cent., issued at par, due October 15, 1942, redeemable after 12 years. The yield of the regular issue, after paying the present income tax is £4, 2s. 3d. to the £100.

For the first time a sinking fund is set up. One-eighth of 1 per cent. of the face of the loan is to be set aside monthly until £10,000,000 is accumulated, to be used in purchasing the bonds whenever they fall below the issue price. The fund is to be replenished in the same manner.

Foreign and Colonial holders will not be liable to British taxation.

The loan will close February 16th. No rights of conversion in any future loan are attached.

The discount rate of the Bank of England, which has been six per cent, since last July, has been reduced to 5½.

The British Debt.

The *London Times* gives the following statement of the British Government debt as of December 31, 1916.

TABLE OF BRITISH GOVERNMENT DEBT.

2½% Consols	£280,466,000
2¾% Annuities	2,709,000
2½% Annuities	21,639,000
3½% War Loan, 1914	62,774,000
4½% War Loan, 1915	899,997,000
3 % Exchequer Bonds (repayable 1920)	21,660,000
5 % Exchequer Bonds (repayable 1919-1921)	333,515,000
6 % Exchequer Bonds (repayable 1920)	169,204,000
Treasury Bills (repayable at intervals this year)	1,115,043,000
War Savings Certificates (repayable 1921)	41,500,000
War Expenditure Certificates (repayable 1918)	29,857,000

In addition to the above there were the loans raised in the United States (amounting in all to £161,370,000), "other debt" £83,466,000, Ways and Means advances £141,156,000, "other liabilities" £82,850,000, and the book debt to the Banks of England and Ireland £13,646,000, making a grand total of £3,461,852,000.

Converting the grand total into dollars at $5 to the pound sterling, the amount is $17,309,260,000. Making the conversions in the same manner, the net borrowings in the nine months to December 31, 1916, were $6,820,455,640, and the net borrowings during the war to the same date were $14,167,992,675. Out of this, however, approximately $3,800,000,000 has been loaned to the colonies and allies, and are counted as investments which offset the sales of American securities and borrowings in this country.

American International Corporation.

The *London Statist* of January 6th, 1917, after reviewing at length the report of the first year's operations of the American International Corporation, makes the following closing comment:

> With the important organization and resources of the National City Bank and allied interests the potentialities are indeed very great. The American International Corporation promises to be—if, indeed, it has not already achieved that position—one of the largest and most important financial corporations in the world; and from what has already been done it is evident that the United States has already entered upon a new chapter in its financial history, indicating that the transformation from a position of financial provincialism to that of internationalism has already begun and, indeed, is already well advanced.

The Railway Problem.

The Congressional Joint Committee of which Senator Newlands is Chairman, has had its life extended to next December. The main purpose for which this committee was appointed was to make a thorough study of the present system of public control, and determine whether by changes in the organization of the Interstate Commerce Commission, greater concentration of authority in the Commission, or by other means, the details of regulation can be managed more effectively, and the business of transportation put upon a more certain and satisfactory basis.

The Committee is also directed to inquire into the advisability of government ownership.

The representatives of the railways advise that the companies be re-incorporated under Federal Charters, and that the task of regulation be taken over completely by the Federal government, in order that they may be freed from the costly and often conflicting supervision of numerous states. They have also suggested that the functions of the Interstate Board be divided, making the present Board a strictly judicial body, and establishing a new body to be charged with investigation of complaints, and the prosecution of actions. They argue that the functions of prosecutor and judge should not be consolidated in one group of men.

The Inter State Commission is confessedly a greatly over-worked body. The task of dealing with all the actions which come before it is beyond the physical capacity of seven men, even though the work be carried on by subdivision to the extreme extent, and the work of investigation be delegated largely to subordinates. Some means of strengthening the Commission, or of relieving it of a part of the work must be found, and one plan is by the institution of subordinate regional boards to have jurisdiction over sections of the country, the present Board to be the supreme court of the system.

The question of public supervision over the issues of stocks, bonds and other obligations is involved in the proposal for exclusive Federal supervision. A number of the states now require that all such issues shall be approved by the State Commissions, but the same proposition when submitted to the authorities of different states is approved in some and rejected in others, or made subject to varying conditions. The railway companies do not object to this supervision, but want to deal with one public authority in all matters which affect their status as interstate carriers.

Importance of Better Understanding.

The railway officials who are presenting the companies' side of the case are hopeful that as a result of the inquiry there will be a better public understanding of the difficulties which are perplexing railway managers, and a disposition to treat the whole problem as one of vital public concern. It is not merely a matter of passing judgment upon railway administration in the past and of determining what treatment the roads are entitled to in view of their past deserts and offenses. The main question relates to the development of railway service in the future. The railway system of the United States is not completed and never will be. Its expansion depends upon capital supplied by individual investors, who naturally compare the opportunities for investment in railways with the opportunities offered in other lines of business. An amount of new capital exceeding all the net earnings of the roads has to be found annually in order to keep the properties up to the growing needs of the country, and unless this flow of new capital is regularly kept up the service will deteriorate and the embarrassment and cost to the country will be a very serious matter. It is therefore highly important from the public side of the question that the status of private capital in railway property shall be determined upon a fair, just and mutually satisfactory basis.

In recent years most of the money which has gone into railways has been borrowed, either upon bonds or promissory notes. The public has been willing to lend money upon a security which came ahead of all stock, but it has not been disposed to buy stock. This is not a healthful tendency, for the companies are becoming top-heavy with indebtedness. Unless a due proportion of capital is invested in ownership, borrowing ability will be impaired.

Notwithstanding the great expenditures made since 1900 by several leading companies, the task of planning and equipping the roads for the future appears more urgent than at any time in the past. The congestion at terminals within the last year has shown that plans must be made, looking far into the future and requiring immense sums of money. Moreover, there is special reason, from a public standpoint, why this work should be promptly commenced. It can be made to give employment to our industries in the period of relaxation which sooner or later will follow this war boom, and that in itself is a matter of great importance.

Watered Stock.

Every time the question of compensation upon railway investments comes up the issue is clouded by the claim that there is a great amount of "water" in the stocks outstanding and that no compensation should be allowed except upon capital actually invested. The idea is widely prevalent that there is but little of invested value behind railway stocks, and the whole subject has been unfairly represented.

The total capital obligations of all the railways on June 30, 1915, was $19,719,863,944, of which stock amounted to $8,635,319,368, and funded debt to $11,084,574,576. This includes the holdings of railway treasuries of stock and bonds of subsidiary and affiliated lines, the earnings upon which go to pay interest and dividends on their own securities. The amount of stock paying dividends in the above fiscal year was $5,-219,846,562.

A larger part of this stock has been paid for in cash to the treasuries. There are no figures for the exact amount, but the Pennsylvania Railroad has never issued any stock except for cash or property regarded as a cash equivalent. It has issued its own stock to pay for certain subsidiary lines acquired, but these issues are not a large factor in the total. It has sold important amounts of stock at a premium, a notable instance being the issue of $100,000,000 some years ago at a premium of 20 per cent. Moreover, while paying only moderate dividends it has devoted important amounts to improvements which may be fairly regarded as contributed by the shareholders. The New York Central has sold important amounts of stock at a premium, and in recent years it has been the common practice to issue railway stocks for equivalent values only.

The most flagrant instances of stock inflation in recent years have been failures. It is so generally the rule that actual values are behind the railway capitalization of today that the roads which are over-capitalized are unable to earn returns on it in competition with the others.

The older railway systems were developed by the consolidation of numerous short, independent lines, and great economies were accomplished by so doing, in which the public shared. The incentive to this development was the opportunity for the owners to share in the benefit of these economies and this share was secured through the increase in capitalization. The railway system of the country is vastly more efficient than it would have been if each little railroad had been retained intact and the owners restricted to six per cent. interest on their original investments.

Stocks were given as a bonus to promote the sale of bonds and as compensation to the organizers and promoters of railway enterprises. Transactions of this kind cannot be seen in their true light years afterward when all the conditions have changed. The stocks of the early roads were often as truly a part of the consideration for the capital actually invested as were the bonds. They were in the nature of a deferred and contingent reward, not a burden to the enterprise in its early days, but they stimulated railway construction and the consequent development of the country and the public received benefits through this quickened development. For this reason the issue of bonus stocks, like the gift of public lands and other public donations was not considered contrary to public policy at the time. The right to issue bonus stock was not in itself considered a great privilege, and the legislators of many states provided for further inducements by passing acts authorizing municipalities to vote taxes and bonds in aid of railway construction.

These things now criticised and which are sought to be undone, were thought necessary to secure the building of railways. The laws sanctioned them, the object designed to be accomplished was secured and it is a mistake to say that no consideration was received.

Regulation and Compensation in the Future.

It is of course totally different when attention is turned to the future. There is no occasion for giving the same kind of encouragement to railway expansion now that was needed in the past, and the companies are not objecting to public supervision over the issue of new securities. There is reason to believe that if the work of valuing railway property now going on is conducted upon a reasonable basis the result will show that the companies are not as a whole over-capitalized. Even though the physical values have been built up in part out of earnings, or enhanced by the general advance in real estate values, it would be unjust to refuse to allow these increments. Every other class of investments enjoys the incidental increment from increasing real estate values, and if it was to be withheld from railway property, notice to that effect should have been given. Certainly no such idea was in anybody's mind at the beginning of railway construction.

The average returns upon railway stocks and bonds are not large compared with returns in other lines of business, and they must compare reasonably with other lines of business if capital is to be attracted from the latter to supply our railway facilities. If the returns upon stocks and bonds were consolidated and averaged upon the capital actually invested in the roads the result would not be equal to what is expected in successful private business. Other classes of investments have profited much more by the growth of the country than investments in railways.

When all phases of the subject are fairly considered it will be seen desirable to drop the old controversy and turn attention to the necessity of raising new capital for the roads. There is every reason to believe that as an abstract question the public is willing to allow the roads sufficient revenue to pay a reasonable return upon the capital actually invested, but it is not likely that it would be willing to guarantee a fixed return upon railway investments, and so long as no return is guaranteed there must be compensation for risk and a margin of profit above what would be satisfactory without risk.

The Western Pacific.

The fate of the Western Pacific Railroad Company, recently sold out by the sheriff under foreclosure of its first mortgage bonds, shows that the day of risk in new railroad enterprises is not over. This road was projected under what might seem to be fair auspices of success. It was virtually an extension of the Denver & Rio Grande, the Missouri Pacific and other Gould roads, from Salt Lake to San Francisco bay, and thus had assurance of through connections. The road cost $81,269,-254 and was operated at a loss of several million dollars a year until 1915, when it was sold under the hammer for $18,000,000.

It is said that the road was a mistake, built where no road was needed, etc., and, of course, that is evident enough now. But experienced railway men promoted it and staked their judgment upon it and how was the ordinary railway investor to know that it was an unwise undertaking? A risk of mistaken judgment is a legitimate risk which has to be borne in every investment field, and it must be covered by the average returns yielded in each field.

Government Guaranty or Ownership.

It is not desirable, in the interest of railway progress, that returns shall be guaranteed at a minimum or fixed as to the maximum. It promotes efficiency everywhere to have the returns of a business depend in some degree upon the enterprise and ability of the management. That is one reason why it is undesirable to have the railways taken over by the government. If they were absolutely finished beyond improvement, and their operations could be standardized for all time, the government might be able to operate them with a fair degree of success, but railroading is a progressive industry, always requiring new capital in excess of its net earnings, and one has only to refer to the cumbersome and wasteful methods of the government in dealing with all new capital expenditures, such as are included annually in the river and harbor and public building

STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS JANUARY 26, 1917.

(In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco	Total
Gold coin and certif's Settlement fund. Cr. Balances	14.977	145,136	23,558	[illegible]	5.434	6.138	33.034	14,473	10.468	6,900	5.833	19,530	302,341
Gold Settlement Fund	15,132	50,897	15,117	26,552	18,085	2,912	33,504	3,468	6,316	27,355	10,629	3,804	213,771
Gold Redemption Fund...	50	250	100	48	245	495	200	84	125	156	45	15	1,813
Total gold reserves..	30,159	196,283	38,775	43,460	23,764	9,545	66,738	18,025	16,909	34,411	16,507	23,349	517,925
Legal tender notes, Silver certf's and Sub. coin....	1.270	8.069	[illegible]	[illegible]	127	688	1.110	3 054	497	220	572	90	17,579
Total Reserves......	31.429	204.352	39.697	44.420	23.891	10.233	67.848	21.079	17,406	34,631	17,079	23,439	535,504
5% redemption fund—F. R. bank notes..............										300	100		400
Bills discounted, Members Commercial paper........	[illegible]	1,702	527	489	4,150	2,129	1.922	554	1,815	524	903	206	15.711
Bill bought in open market	13,498	27.404	[illegible]	7,342	3.688	3,902	7,436	5,545	5.966	3,044	1,676	9,203	97,697
Total bills on hand..	14.288	[illegible]	9,520	7,831	7.838	6 031	9.358	[illegible]	7.781	3.568	2.579	9.409	113.408(c)
Investment U. S. Bonds ..	666	232	826	6,117	1,340	1,372	7,413	2,203	1,913	8,518	3,603	1,919	36,122
One-year U. S. Treas. notes	1,666	1,726	1,999	1,820	1,969	1,491	2,962	891	1,230	963	1,430	1,500	19 647
Municipal Warrants.......	[illegible]	3,709	1.482	[illegible]	61	402	1,784	539	605	225	178	[illegible]	12.249
Total Earning Assets	17 249	34.773	13.827	17,574	11,208	9,296	21.517	9,732	11.529	13.274	7,790	13,657	181,426
Federal Reserve Notes, net	[illegible]	18,927	1,342	893			1,695		142			2,993	27,061
Due fr. other F. R. Bks. net				2.599		814		1,933	539		377	467	4,123(b)
Uncollected items.........	11,560	26,997	14,497	9,266	8,575	10.136	15,780	8,137	4,358	8,985	3,917	4,229	126 437
All other resources........	[illegible]	701	474	737	227	2.727	1,109	3,616	117	566	1.737	612	13.609
TOTAL RESOURCES.....	[illegible]	285.750	69.837	75.489	43,901	33.206	107.949	44 497	34.091	57,756	31.000	45,397	880,314
LIABILITIES													
Capital Paid in............	4,990	11.852	[illegible]	6,020	3.361	2.410	6 932	2.799	2,402	3,074	2.694	3.930	55.694
Government Deposits.....	325	3,197	2.861	1.157	2.058	2.873	1,592	4,633	2.335	441	1 492	2.643	25 607
Reserve Deposits, net.....	47.488	[illegible]	[illegible]	[illegible]	26,153	14.097	[illegible]	26,737	26.758	45.623	23 303	35.966	687,841
Federal Reserve Notes-net	7,023	18,875	14.928	9,730	7,324	9,929	8,526	6,683	2.596	5,859	3,117	2,784	97,374(a)
Federal Reserve Bank Notes in circulation.....					3,749	3,897		3,645		1,824	394		13,509
Due to other F. R. Banks net....................	2,421	5,199	642		1,256		[illegible]			935			
All other Liabilities......	46	79	90									74	289
TOTAL LIABILITIES.....	62.293	285.750	69.837	75 489	43.901	33.206	107,949	44.497	34 091	57.756	31,000	45.397	880,314

(a) Total Reserve notes in circulation 259.768
(b) After deduction of net amount due to other Federal Reserve Banks, 4,123, the Gold Reserve against Net deposit and note Liabilities is 73.8% and the cash reserve is 76.3%. Cash Reserve against net deposit and note liabilities after setting aside 40% Gold Reserve against net liabilities on Federal Reserve Notes in circulation 77.0%.
(c) Bills and acceptances; municipal warrants: 1—15 days 30,510; 16—30 days 19,121, 31—60 days 54,178; 61—90 days 13,303; over 90 days 8,545. Total 125.657.

bills, to see that it is not qualified to carry on the development of the transportation system in an economical manner.

The Secretary of the Treasury, in his recent annual report, makes the following statement about the activities of Congress in one field:

In the past two decades the Congress has authorized and appropriated approximately $180,000,000 for public buildings, and the major part of this great sum has been expended on costly structures in small localities where neither the Government business nor the convenience of the people justified their construction, and while the initial cost of these buildings represents a large waste of public funds, this is not the worst of it. The most serious aspect is this: The annual operation and maintenance of these buildings impose on the Treasury a permanent and constantly increasing burden.

There are now more than 1,000 Federal buildings to be operated and maintained, and this number is being increased at the rate of a new building every fourth day in the year. Meanwhile, the cities and larger towns have outgrown their Government buildings and nearly every populace center in the United States is today acutely in need of additional space to meet the demands of greatly increased and constantly increasing Government business. To such an extent has the Government business outgrown the old structures in the cities that the rentals for outside space now amount approximately to $3,000,000 annually. This capitalized at 3 per cent. represents $100,000,000, and is doubtless the amount required to provide the facilities sorely needed for the prompt, efficient and economical conduct of the public business in the great centers and large cities of the country.

Common sense and business judgment would seem to demand that structures for the transaction of Government business should be authorized only in localities where they are imperatively needed, and that buildings should not be erected where no public necessity can be shown.

1812

THE NATIONAL CITY BANK OF NEW YORK

1917

Economic Conditions
Governmental Finance
United States Securities

NEW YORK, MARCH, 1917.

A Month of Suspense.

THE past month has been one of grave and unusual concern in the political and business world, owing to the sudden development of the crisis with Germany. Diplomatic relations were severed under circumstances which seemed to make war inevitable, and although nearly a month has passed without an act of direct hostility upon either side, the situation is no less critical than when the German Ambassador received his passports. The issue between the two governments is directly joined, and no longer under discussion. Germany has asserted its intention of sinking all ships, belligerent or neutral, in certain waters of the high seas, without search, without warning, without provision for the safety of passengers or crew. Although a nominal blockade has been declared, the conditions prescribed do not accord with the recognized rules of international law, but are, in fact, arbitrary commands, without international sanction, and protested against by all neutral nations. Incidentally, they are in direct contravention of the treaty of the United States with Prussia, 1799, re-adopted in 1825, and referred to by the German authorities in recent correspondence as still in force.

Questions Involved.

Under the circumstances, it is evident that the questions presented to the United States government are much broader than the extent of immediate injury to American trade. Acquiescence would mean not only a surrender of the rights of American citizens, but a definite abandonment of neutral rights of far-reaching consequence. Moreover, for a neutral power to change its public policy in time of war at the behest of one belligerent to the injury of another belligerent is practically to take sides between them.

The country has been very calm under the strain. It has no wish for war, and nothing could be more completely false than the idea that the government at Washington has been under pressure by interests which hope to make money out of war. The people of this country do not want war, and they cherish a long-established friendship for the German people, but there can be no question that they will support their government with practical unanimity in defense of what the President has declared to be "our elemental rights as a neutral nation."

In the Event of War.

There is no reason to anticipate that a declaration of war by this country would have any immediate effect upon the business situation, other than that resulting from additional stimulus. The government has already entered the market for equipment and supplies, and is committed to great expenditures upon the army and navy, but doubtless its orders would be increased and expedited. The experience of other countries, and our own as well, shows that war makes enormous demands upon the industries, hence there would be no reason to apprehend a sudden reaction from the present activity. The danger would be from the other side, i. e., from an over-stimulus in certain directions at the expense of normal development. The industries of this country are already working to capacity, and it is difficult to see how they could do more. Under such conditions government orders would crowd private business to the rear, create new demands for labor and materials, and probably raise costs to a higher level. Enlistments would necessary aggravate the scarcity of labor, and the amount of business in sight would be likely to stimulate further construction work for the enlargement of industries. These are the inevitable economic derangements caused by war, and in some degree we have already been experiencing their effects. War is not recommended by anyone who understands its economic effects as a means of increasing the wealth of a country, but if war must come it is certain that the United States is more fortunately situated to withstand it, and has greater resources with which to prosecute it than any of the countries which have sustained such marvelous exertions for now two and one-half years.

General Business Conditions.

After the first shock of surprise the situation quickly steadied, and aside from a more conservative feeling in financial circles as to future commitments, due to the probability that government financing would have to be done, business went on about as before. Export shipments have been interfered with by the submarine menace, but in the disorganized state of domestic traffic that has been a minor factor. The submarines will undoubtedly do a great deal of damage, but it is not believed they can greatly curtail our export trade, particularly if our own government takes steps for its protection. The announcement of the new British embargo, imposed for the purpose of curtailing purchases abroad and thus reducing the unfavorable trade balance, was received with interest. The propriety of the action, under the circumstances, is not questioned, and our trade is so great at this time that the prohibitions will have small effect upon it, particularly as in the more important lines the action is intended simply to bring transactions within the purview of the government, under licenses.

The Railways.

The congested state of the railways has overshadowed international affairs in business circles generally. The situation, which had been bad before, was made desperately so by storms and cold weather, which impeded switching oprations at the terminals. Instead of a car shortage the situation has been that of a general blockade. The roads have been embarrassed by the scarcity of labor, and particularly of machinists, who for two years now have been in great demand for the manufacture of machine tools and work in automobile and munition factories. The heavy traffic of the last year has told on equipment, but the machine shops are short-handed, and it is a serious matter to keep the locomotives in commission. During the last ten days, with milder weather, traffic conditions have improved in an encouraging degree. Deliveries of new equipment will be coming along in important lots this year, but it has been demonstrated that the railroad situation needs treatment on a large scale looking to the future.

The Steel Industry.

The steel industry has been adversely affected by the railway congestion, which prevented the movement of raw materials to the works and of products away from them. At one time during the month nearly as many blast furnaces were banked as were operating freely. The pressure to place orders is practically as great as at any time, the demand for ship plates being one of the prominent features. Foreign business, in ship plates, railway and structural steel, and shell steel is offered constantly. The tendency of prices has been again upwards, and whatever uncertainty there was two months ago about full activity for the industry throughout 1917 seems to have disappeared.

The high prices ruling for all building materials are evidence in themselves that building operations are on an undiminished scale. Although there is more or less talk in all quarters of plans held up on account of the high prices the most tangible fact is that with the production of building materials greater than ever before, there is no accumulation of supplies. The lumber industry would be doing very well but for its transportation troubles.

The metal, mining and refining industries are still stimulated to the utmost, and constantly increasing the output. Silver, since January 1, has reached new high figures, not touched since 1893, and closed last month at about 78 cents. Copper is quoted at 36 or 37 cents spot, and forward deliveries lower. Producers are sold up into the last half of the year. Lead is higher than at any time since the war began, due in part to the difficulty in getting supplies from the mining districts.

The Textile Industry.

The textile industries are as busy as at any time, but there has been some unsettlement in the cotton goods market as a result of the fluctuations in raw cotton. Distribution, however, is on an unprecedented scale. The market for woolen goods has been excited over the prospect that the United States would get into the war and enter the market to buy uniforms. A British authority has estimated that one-third of the world's wool supply was going into uniforms, which would mean that less than 1 per cent. of the population was taking 33 per cent. of the wool. The United States has always been largely dependent upon the Australian wool crop, and in the year 1915-16 the British government permitted large exports to the United States under an understanding with the Textile Alliance governing exports of cloth from this country. It has not been claimed that understanding was not observed, but this year exports of Australian wool to the United States has been limited to 50,000 bales, as against an actual movement of 564,000 bales last year. This situation is giving great concern to American manufacturers, and they still hope that further amounts will be released. Prices have advanced sharply since January 1st. Western wool, to be sheared in May, is said to have sold as high as 40 cents per pound. All woolen goods are necessarily higher.

The boot and shoe industry is between seasons, and the situation as to leather and hides is uncertain. The British embargo includes shoes and leather, but these are necessities which will doubtless be admitted as needed.

Trade and Clearings.

Trade generally is very large for the season of the year—in truth, as large as it can be with the railroad facilities what they are. The products of the interior—grain, live stock, oil, wool, cotton, etc., are bringing unusual prices and although these prices signify that living costs bear heavily upon many residents of the cities, they put great purchasing power into the hands of the producers. Bank clearings, which now compare with the large figures of a year ago, are showing reduced gains in the east, but large gains in the west and south. Railway earnings for December, the latest month available, although showing a good gain in gross over the same month of 1915, showed an actual loss of net, a state of affairs that railway managers have been looking forward to with apprehension. The first effect of the revival of business was to give them large gains in both gross and net, but as they used up their old stock of supplies and have been forced to replenish at higher prices, the net gains have been diminishing until now, with earning at the maximum and expenses still rising, the outlook is by no means agreeable. It is stated that the average advance in railway equipment and supplies over 1915 is 118 per cent., and the wage question is not yet settled.

Financial Situation.

Financial circles are quietly awaiting developments at Washington. The banking situation is strong in every respect, and no disturbance of confidence is expected in any event. The New York Clearing House banks hold $167,000,000 in excess of their legal reserves, as compared with $135,000,000 a year ago, and the banks throughout the country are in exceptionally strong position, not only as regards their cash reserves, but as regards the character of their loans. The prosperity of the last two years has put the business of the country on a very solid basis. The banking system of the country is abundantly able to take care of the needs of the business community in any situation that develops, and to perform any part that may devolve upon it in connection with the government's financing.

Whether the country becomes a party to the war or not, it will have to borrow money to meet the great expenditures that have been undertaken. As yet the Secretary of the Treasury has no authority to borrow except by the sale of the Panama Canal bonds or one-year certificates, which pay three per cent. interest and cannot be sold at less than par. If the country is not actually at war, and the amount required is not above $200,000,000, or possibly $300,000,000, it may be that this provision will suffice, but if there is practical certainty of more extensive borrowing, a three per cent. rate will be too low to attract the amount of capital required.

If this country becomes a belligerent there will be naturally a change in the situation as regards loans to the allied powers. Financial aid to them would count practically for the same results as aid to this government, and be much more speedily effective. It is likely that all of the allied governments would rather have immediate reinforcements in the form of credit and supplies, which would help them in the campaign they are planning for this spring and summer than any more distant aid that could be offered. A policy that would shut off their borrowing and purchasing here now would weaken them at a critical time.

For the month of January, 1917, the exports of this country were $613,441,000, and the imports $241,675,000, giving a trade balance of $371,766,000, largely against the allied countries. Since January 1st a British loan of $250,000,000 has been placed here, and $151,000,000 of gold has been brought in on British account. These figures gives some idea of the problem which confronts Great Britain in settling for her own and her allies' purchases in this country, and indicates where she has the greatest need of help.

Importance of the Crops.

At the moment no other factor in the national situation is of greater importance than intelligent, precautionary preparations to secure the largest possible acreage of land under cultivation, and particularly in the food crops, during the coming season. Whether we are to have war or peace, the population must be fed, and if, unfortunately, weather conditions should be unfavorable, and the yield no better than last year's, the food situation next winter will be so much worse than it is now that we may well take alarm while there is yet time to provide against the possibility. The present crop year began with a large carry-over of all the grains, but it will end without reserves, and the whole world will be dependent upon the crops of 1917. The beginning is not good. The Argentine wheat crop, now harvested, is so nearly a failure that there will be little for export, and the corn crop will be not much better. The Australian wheat crop, which, like that of Argentine, is harvested in the months of our winter, is estimated at 139,392,000 bushels, against 187,120,000 last year, but fortunately there is a carry-over estimated at 80,000,000 bushels. A semi-official report puts the condition of French winter wheat at 65 per cent., against 74 last year, and states that owing to lack of fertilizer and want of proper preparation of the soil, the yield will be below normal. The crop of Holland is unpromising, and of England backward. In the United States there has been a shortage of moisture in the principal winter wheat states.

The plant is not known to be injured, and there is yet time for sufficient moisture to come, but if it was under a snow covering the outcome would be better assured. A freeze has cut off the early vegetable crop in the Southern states, which would have soon relieved the present scarcity.

Unusual Conditions.

There are unusual features in the situation which deserve attention. The high wages paid in the town industries have been drawing labor from the farms. The men come to the towns for winter work, and last spring they did not go back to the country, and they are not likely to go back this spring, particularly if industry receives a new stimulus from our entrance into the war. The farmer's outlay for seed and all expenses is higher, and while high prices for products are usually expected to stimulate larger production, they may not do so this year.

In ordinary times we can draw on other countries to make up for domestic shortage. We have frequently imported potatoes from Europe, and the effects of not being able to do so now are apparent. It is just as important under present conditions to have reserves of food as reserves of cartridges. When so much is dependent upon a good crop, it is the part of prudence for the entire community to concern itself about the situation from the beginning of the season. There are certain common vegetables which make up a large part of the food supply, such as potatoes, beans, onions, etc., which do well in all parts of the country, and can be grown in a small way without machinery, whose production this year, in ample quantities should be assured beyond chance or doubt. This garden production can be greatly increased if a popular interest is awakened and systematic efforts are made to place idle town lots and nearby tracts at the disposal of people who are willing to work them.

Organization Required.

The grain crops can also be increased materially if all the business interests are aroused to an appreciation of the fact that the country confronts an emergency. The time to deal with next winter's food riots, next winter's proposals for an embargo and other wild legislation, and next winter's demands for higher wages, is now. It is a popular idea of late to have a "survey" made of any situation of public concern, and it would be well if one were made this spring of crop prospects in every agricultural county of the country. The question of facilitating production comes down at last to the situation of each farmer; does he need anything required for his work—seed, a horse, an implement, temporary assistance, or even advice—which a community-organization might provide? There is much work, well enough at another time, which may be subordinated this year to the production of a big crop. The South should continue and extend the policy of growing more food stuffs. If chambers of commerce, bankers' associations, and other local organizations of business men will take the situation in hand in a formative way they can do more to safeguard the prosperity of the country than can be done at this time by any other effort. With reserves exhausted, and the world situation what it is, there is no danger of overdoing production, for the largest possible crop in this country is certain to bring remunerative prices. It must be remembered that if the war ends at any time before the crop of 1918 is harvested there will be a great demand from central Europe on the crop of 1917.

The New Taxation.

The Senate Committee upon Finance has accepted the House proposal for a special tax of 8 per cent. upon the net income in excess of 8 per cent. of all corporations whose net annual income exceeds $5,000, but has amended the measure to make it expire by limitation in four years.

A great many protests against the principle of this taxation have been made by organizations of business men, and but for the critical situation in which the country stands there would be many more. Men are reluctant to raise objections at a time when they recognize the need of more revenues for the national defense, and when objections subject them to unfair criticism. They are more than willing to support the government in all policies necessary to uphold national interests and the national honor, and they do not like to appear as obstructionists, or as counting the cost to themselves, but they cannot fail to see that new and far-reaching policies which they do not approve are being developed in this taxation.

In this country wealth has always borne the bulk of the taxation. Much the larger part of our taxes are for local purposes, and they are levied directly upon property holdings. The taxation of the Federal government has always been levied largely upon luxuries. It is right that property should pay for the protection which it receives, and the taxation of luxuries is an eminently sound policy. It may be readily agreed that these two sources should supply the great body of the revenue, but it is an essential principle of the democratic form of government that every person who participates in the government, enjoys its protection and helps to shape public policies, should accept some share of the burdens which the government entails. We are getting so far away from this principle that taxation, instead of being regarded as a burden, is looked upon by an increasing number of people as a means of despoiling the minority in possession of incomes which are large enough to come under popular condemnation. It has become a leveling agency, valued for what it accomplishes in this respect independently of the revenues it produces.

The Source of Profits.

The general theory upon which the excess profits tax is approved by this class of people is that the persons who make their capital earn more than eight per cent. do it by somehow putting the screws on the public, and that the tax penalizes and discourages them.

If these premises were correct there would be small reason to complain of the reasoning, but the truth is that the men who are most successful in business win their success by conferring benefits upon the public, and that instead of being penalized and discouraged they should be rewarded and encouraged. In every efficiency plan, where the object is to increase production, a certain standard is fixed upon and every achievement above that is rewarded. In the efforts that are being made in many states to raise the average of corn production it is customary to give a reward of some kind to every competitor who raises 100 bushels to the acre, and graded prizes to those who exceed that amount. The reason for this is perfectly apparent in the communities where such contests are carried on. It is a gain to the whole country to have the production of corn increased. The methods which the successful competitors introduce will be seen and adopted by others and eventually the average production of the whole country will be increased.

The same is true in all lines of business. The fact that one man makes a higher return on his capital than others in the same field is usually due to the fact that he manages his business more efficiently. The leaders in every line are the money-makers, and they are usually serving the public better and at lower cost than their less enterprising rivals. They introduce the new methods; they cheapen production. Gradually the methods which they develop become general, and the average cost is reduced, but they are always ahead and below the average. The state could afford to pay rewards for their leadership, but instead of that the new policy is to put a special tax upon every one who can show his head above the deadline, and to make the tax rapidly progressive.

Educational Test for Immigrants.

The next immigration act, which raises the head tax from $4 to $8, imposes a literacy test and adds various minor amendments to the existing law, has been passed finally over the presidential veto, and will become effective May 1st. The measure, in practically its present form, has been pending for years, and vetoed several times. It prevails at last through the combined influence of the sentimental people who think our citizenship is being too rapidly diluted and the very practical people who think the supply of labor is being too rapidly increased. It remains to be seen how serious a bar the literacy test will prove to be. This country has been developed largely by immigrant labor. Its common labor now is largely of the immigrant class, and unless there is a sufficient supply of such labor to enable our industries to expand there will be fewer opportunities for all our people. There cannot be employment for more clerks, mechanics, craftsmen, tradesmen or professional men unless there are also more laborers. There cannot be an expansion of railway service without more track hands and laborers as well as trainmen and office employes. In this country we are doing our best to educate the rising generation to occupations more remunerative than manual labor, but there is manual labor which must be done. It has been coming to us from foreign lands to the advantage of the immigrants, and to our advantage as well. If the new test is effective in curtailing our labor supply, it will retard the industrial development of the country. Of all times, the present would seem to be most inopportune for placing restrictions upon the supply of labor. Our supply of capital is increasing rapidly, but it cannot be used without an increasing supply of labor, and if this is not available here capital will go where it can be obtained. This means that we are contributing by our own legislation to the forces that will promote the exportation of gold when the war is over, and that by the exclusion of labor and the exportation of capital we will aid the development of European industries to compete with our own.

The Meat Industry.

The quotations in the January number of this publication from the recent annual report of the Cudahy Packing Company have brought us several letters of comment, which show that some readers have confused the percentage of profit upon sales with the percentage of profits upon capital employed. The figures given for profits were about one-quarter of one cent per pound on an average for all dressed beef sales during the year, and 2.2 per cent. upon the sales of all product.

The business of the great meat-packing companies is of more than ordinary interest to the public because they handle an important article of food and are often accused of exercising monopolistic control over the prices of live stock and meats. Their annual reports to stockholders show the earnings and the details of the business quite fully, and are verified by well-known firms of public accountants. It is characteristic of the business that the percentage of net earnings upon gross business is small, but the aggregate profits of the leading companies are large, because the volume of business is enormous. The percentage upon sales shows the relation of the packer's profit to the price of live stock and of meats, which is the most interesting feature of the subject. The percentage of annual net earnings to

capital is larger, of course, because the capital is turned over several times during the year. Moreover, all of the packers are large borrowers, and because of the quick-moving, staple, character of their product are able to borrow at low rates, and the profits upon the borrowed capital are included in the earnings shown upon their own capital.

The year 1916 was an unusually good one in the packing business, as it was in most lines of business. The movement of cattle and hogs was large, so that establishments were run close to capacity, foreign sales were exceptionally heavy, and inventories were made on a higher basis of values at the end of the year than at the beginning. The larger companies have been broadening their field in recent years to include other food products and various inedible products, and extending their operations to other countries. Their entire business at home and abroad is included in the reports.

Profits of Leading Packers.

The total sales of the largest business, that of Swift & Co., during the fiscal year, amounted to $575,000,000, upon which a profit of $20,465,000 was realized. The profits were about 3½ per cent. on the turnover, the largest in many years. Calculated upon the company's own capital, including the surplus fund, about $120,000,000, they amounted to 16⅔ per cent. The amount of borrowed capital employed at the close of the year was about $70,000,000.

The profits upon the beef business are reported separately as follows:

Live weight of cattle slaughtered	1,764,144,000 lbs.
Dressed weight of cattle slaughtered	953,446,000 lbs.
Net profit realized	$2,342,702.29
Average net profit per cwt. live weight	$ .1328
Average net profit per cwt. dressed weight	$ .2457

We have examined the books of Swift & Company and we certify that the above statement of profits of the Beef Business in the United States for the fiscal year ending September 30, 1916, has been ascertained from the Company's books, and correctly represents the profit earned from the sale of Beef Hides, Tongues, Tripe, Casings, Oil, Tallow, Fertilizer, Bones, Offal, and all other by-products of the cattle before charging interest on borrowed money, but after charging depreciation at the rate of 1.9% per annum on the cost of Buildings and 6-1/12% per annum on the cost of Machinery and Equipment.

ARTHUR YOUNG & Co.,
Certified Public Accountants.

Chicago, Illinois, November 28, 1916.

The profits upon dressed beef are about the same as shown by the Cudahy Company, but the percentage upon the entire business is higher, and averaged about one-half cent per pound upon all products handled.

Armour & Company are next to Swift & Company in volume of business, with sales of $525,000,000. Their capital and surplus aggregate about $137,000,000. The profits of the year's business were $20,100,000, or 14.7 per cent. on the company's own capital employed, besides which it was employing at the close of the year about $78,000,000 represented by bonds and bills payable. The President's report contained the following statements as to features of the year's business:

Our business has been in increased volume, the gross business done during the year under review having been $25,000,000, which, based on the net profits shows a return of 3.8 per cent. on our turnover.

The margin of profit in the handling of edible meat products caused us, as you will remember, a few years ago to center our aims of expansion to the development of our subsidiary and allied companies and departments, some of which handle the by-products of the packing houses, but in many of which the percentage of our by-product to the total raw product consumed by the subsidiary was small. This year has amply demonstrated the soundness of our policy in this regard, although due consideration must be given to the unusual conditions prevailing throughout the world. The greater increase in percentage of profit has been in these companies handling inedible products.

The results this year have not only been possible, but consistently augmented, because we have throughout the year experienced continually increasing values. You will remember that at the beginning of the year inventory values were low, and each month has seen slight increases over the preceding month. In this we have had a directly opposite result from that of the year 1911, which was the most unprofitable in our history. We are now in a very high plane of values, and it will require great discretion and cautionary procedure in the conduct of our business to avoid a recurrence of the conditions of 1911 and the attainment of a normal plane of values without severe loss.

During the year just closed we were able to show for the first time throughout the full year the results of the operations of our new packing house recently completed in La Plata, in the Argentine Republic.

These reports show the big packing companies at record earnings. The officers in each case take occasion to advise the stockholders that such profits cannot be expected permanently, but even last year they were but a small factor in consumers' prices. It is safe to say that instead of representing a tax upon either the producers of live stock or the consumers of meats, these profits are more than met by the economies of present methods as compared with the old methods in vogue when the meat for every locality was provided by its own slaughtering establishments, and the latter were a common nuisance in the outskirts of every town.

The leading packers make as by-products scores of commercial articles, such as fertilizers, glue, soaps and other toilet articles, violin and drum strings, curled hair, brushes, pepsin and a line of pharmaceutical products, from materials which formerly went to waste.

February Bond Market.

The German announcement of "unrestricted submarine warfare" on February 1st resulted in a severe contraction in bond dealings. During the first week of the month a list of twenty-five active rails and industrials suffered losses rang-

ing from one to three points. Of the foreign government issues, Anglo-French 5s, American Foreign Securities 5s and English and Canadian issues were active at slightly lower prices. During this period stocks declined in the most violent manner since the week ending December 23d. The second week of the month brought continued fractional declines in active rails and industrials and heavy sales of foreign governments, particularly in the new British 5½s. Trading was active in U. S. Government issues as the result of discussion regarding a new government loan. The third week brought advances in rails and industrials with an active inquiry for British, Canadian and American Foreign Securities. Anglo-French 5s were particularly strong, advancing from 90 to 92 on sales for the week of $2,078,000. The closing week of the month experienced a stronger market for rails and industrials, with average advances of 1%, while foreign government issues sold well.

Municipal Issues.

There have been few offerings of new municipal issues during the month, the most important being $4,000,000 State of Massachusetts 4s, which were sold at prices yielding 3.50% to 3.75%, according to maturity. The successful bidder reported the bonds sold in two days. The City of Detroit sold $1,000,000 Thirty-Year 4s on a 3.92% basis. Prices declined somewhat during the month with cities such as Cleveland, Youngstown, Buffalo, Syracuse and Utica offered on a 3.90% to 4% basis. New York City bonds were weak in the opening days of the month, declining from a 3.97% to a 4.15% basis, but closing the month on about a 4.10% basis. The total sales of State Bonds on the New York Exchange from January 1st to February 23 were reported at $56,173,500, as compared with $32,048,500 for the similar period in 1916.

Corporation Issues.

There was practically no new financing of importance until the closing week of the month, when a New York syndicate offered $50,000,000 Bethlehem Steel Company 5% secured notes due February 15, 1919, at 98½ and interest, about a 5¾% basis. Another New York syndicate offered $25,000,000 Southern Railway 5% secured Gold Notes maturing March 2, 1919, at 99 and interest yielding about 5½%.

Other offerings include $10,000,000 Edison Electric Illuminating Company of Boston Five-Year Gold Notes on a 4.50% basis; $2,000,000 Cleveland Electric Illuminating First Mortgage 5% Bonds at 103; $2,155,000 North American Light & Power Company First Lien 6% Bonds at 100; $5,000,000 Public Service Corporation of Northern Illinois 6% Serial Debentures at 100; $5,500,000 Haytian-American Corporation 7% Cumulative Stock at 100; $4,804,000 Texas Electric Railway First and Refunding 5% Bonds at 94½.

Foreign Governments.

The most important financial event in the foreign government market was the spontaneous subscription of $5,000,000,000 to a new British "Victory War Loan" which is said to be the world's largest financial operation. The only new offering of prominence in the home market was $4,000,000 Province of Ontario 4% Gold Bonds due March 1, 1926 at 92¼ and interest, yielding about 5.10%. On February 2nd the Minister of Finance asked the Canadian Parliament for authority to float $100,000,000 to finance maturing obligations, public works and general purposes. It, however, is now reported that the Minister will shortly announce the third Canadian loan for war purposes. The particulars are not announced but it is anticipated that the loan will be somewhere between $100,000,000 and $150,000,000 in the form of a twenty-year 5% bond on about a 5⅜% basis, payable in Canada and New York. A new French loan has also been under discussion. The Argentine Government paid in cash the $18,500,000 Discount Notes maturing February 21st and it is said that the funds were raised internally. An issue of $8,098,000 Province of Buenos Ayres, Argentine, Ten-Year 6% Gold Bonds, formerly placed in London in sterling through the London County and Westminster Bank, has been refunded into dollar bonds and transferred to this market.

Railroad Financing.

New York, New Haven & Hartford stock has been making new low records as the result of discussion regarding the payment on May 1st of $25,000,000 New Haven 4½% Notes and $20,000,000 New England Navigation 6% Notes. Bankers closely associated with the property are said to have assured the management that the notes will be paid or refunded. The Interborough Rapid Transit Company will ask permission of the Public Service Commission on March 8th to issue $16,436,000 5% bonds under its First and Refunding Mortgage in connection with third-tracking and other work on the Manhattan elevated system. The first of the Chicago Traction bills was introduced in the Illinois Legislature on February 6th to permit the consolidation of the surface and elevated lines, which will embrace financing of about $500,000,000, half for construction and half for refunding existing securities. The Chicago & Northwestern Railway has announced an offering of $15,251,000 Common Stock at par to holders of common and preferred of record March 1st to the extent of 10% of their holdings, payment on or before April 7th. It is reported that New York and Philadelphia bankers are organizing a holding company to amalgamate the electric power properties of the Lehigh Coal & Navigation Company and the Lehigh Valley Transit Company of Eastern Pennsylvania, which will require a capitalization in the neighborhood of $40,000,000.

Average Prices.

The average prices for forty listed bonds as compiled by the *Wall Street Journal* is 94.28 February 24th, compared with 96.06 January 24, 1917, and 94.72 February 24th, 1916. The volume of bond business for the New York Stock Exchange for the four weeks ending February 23d was $80,884,000, compared with $83,088,500 for the similar period in 1916.

Federal Reserve System.

The Federal Reserve Board has obtained more nearly what it wants, in the way of amendments to the law, from the Senate Committee than from the House Committee. The former has approved of the proposal to allow the reserve banks to issue reserve notes directly in exchange for gold, instead of by the circuitous method now pursued, and also of the proposal that the official percentages of gold against outstanding notes and of lawful money against deposits shall be calculated upon the consolidated assets and liabilities, including gold in the hands of the reserve agents. This will show the true condition of the banks and increase their lending powers. At present gold in the hands of the reserve agents is treated as no longer owned by the banks, but as paid irrevocably into a redemption fund, where it simply offsets an equal amount of notes in circulation. The percentage of reserve to outstanding notes now represents the relation between gold in the hands of the banks and the amount of outstanding notes after deducting from the latter the amount of gold held by the agents.

If the Senate passes the bill reported by its committee, and the House passes the bill reported by its committee, the issue will be determined in conference.

The Senate Committee has proposed a different change in the reserve requirements. After providing that the actual net reserves of the three classes of member banks in the reserve banks shall be not less than 6, 10 and 13 per cent. of their own demand deposits, and three per cent. of their time deposits, it provides that:

> "Every member bank shall maintain in its own vaults an amount of specie or currency equal to at least four per centum of its demand deposits less the amount of those reserves with the Federal reserve bank which are in excess of the minimum reserves required by this section."

Bank Credit and The War Loans.

The borrowings of the belligerent governments are upon such an enormous scale that even the financiers who have best understood the resources of these countries are astonished at the facility with which the successive loans are placed. Naturally there is great interest in the bank statements, as these give the most definite information to be had, touching the question whether the loans are taken up by the public out of current income or handled, either directly or indirectly, by an increasing use of bank credit.

The total of all British Treasury loans from the outbreak of the war to the close of 1916 was approximately $14,000,000,000, and something more than one-half of this sum was placed in 1916. Loans made in the United States up to that date aggregated about $850,000,000, and securities sold here have been estimated at $2,000,000,000. A loan was placed in Canada, and there have been scattered sales of bonds and Treasury bills in other countries, but on the other hand there have been important sales of Russian and French Treasury bills in London, and some capital has been raised in England for industrial purposes. Apparently as much as $11,000,000,000 of new capital, or capital and credit, has been provided in England, over and above the proceeds of borrowings and security sales outside, in about two and one-half years, or nearly $4,500,000,000 per year. Besides this there has been new taxation, which for the fiscal year ending March 31, 1917, is expected to yield $1,500,000,000. These sums are far beyond any estimates ever made of the net savings of the British people.

The German Imperial Government to the close of 1916, had issued five loans, to which subscriptions aggregated $11,187,100,000. This sum was practically all raised in Germany, and since the early months of the war there has been little opportunity for the German people to realize on outside investments in any way that would be helpful in this respect. How has it been done?

The natural inference is that credit has played a large part in the process in all countries and no doubt this is true, but so far as information is available concerning banking conditions in Great Britain and Germany, bank credit does not appear to be as large a factor in the totals as might be expected. It is very interesting to trace the effect of an expansion of loans upon deposits and note circulation, but the data is rather scanty on this side of the ocean, as foreign banks, other than the banks of issue, are not required to publish statements, and when they do the figures are not in all respects comparable.

Creating Bank Credit.

Sir Edward Holden, head of the London City and Midland Bank, at the recent annual meeting of that bank, discussed in an interesting manner the creation of credit, and gave some figures for the leading English banks. He said that from June, 1914, to June, 1916, the loans of 19 leading banks, excluding the Bank of England, showed an increase of $600,000,000, after deducting an amount equal to their own aggregate capital and surplus, and that deposits showed an increase of an equal amount, after deducting their cash reserves. This clearly indicates the relationship between loans and deposits, which must be

constantly borne in mind in considering present conditions. He also said that in the same period the Bank of England created new credit in the sum of $345,000,000, so that the 19 principal banks together with the Bank of England had created new credit in amounts aggregating $945,000,000. The 19 leading banks have about three-fourths of the business done by all banks other than the Bank of England.

In his statement of loans Sir Edward Holden evidently did not include investments, which in the 19 banks have increased by approximately $1,000,000,000. He may be right in not including this increase as representing new credit, but Mr. Goodenough, chairman of Barclay & Company, another one of the leading banks, addressing his stockholders at their recent annual meeting, touched upon the effect of having the banks subscribe for the loans on their own account in the following language:

> Many people ask why the banks do not subscribe all that is required to carry on the war. The reasons against their doing so should be clearly understood. They have already been briefly alluded to in several of the leading papers, but I think the point should be emphasized. It is not good that the banks should subscribe, except for temporary purposes, or in the way of lending to private individuals who do subscribe, because when banks subscribe there is a duplication of credit which in course of time is injurious to the community at large, causing a rise in prices all round and a demand for increased currency, both of which are adverse to the stability of the foreign exchanges
>
> If an individual subscribes to the War Loan, he reduces his credit with the bank and transfers it to the Government, and the Government in turn pays over the amount to those to whom they are indebted, and through them the original item of credit returns to the banks. There is no duplication of credit, but merely a change of hands. On the other hand, if the banks subscribe, a fresh item of credit is created in favor of those to whom the Government is indebted, without a corresponding reduction of credit on the part of any of the bank's customers.

This would seem to bring bank subscriptions to government loans into the same class with bank loans to customers who borrow for the purpose of subscribing. In the latter case new credit is plainly created; in the case of bank subscriptions it would depend upon the manner in which payment to the Treasury was made. If payment was made by a transfer of cash from the vaults of the subscribing bank, no credit would be created; and the same would be true if payment was made by drawing upon an existing credit at the Bank of England. The latter instance would be analogous to the case of an individual subscriber who draws on his deposit account. But if the subscribing bank made payment by creating new credit upon its own books, upon which the Treasury made drafts, or if it created new credit at the Bank of England by borrowing or re-discounting, as many of the banks did at the outbreak of the war, evidently the sum total of current credit would be increased in the same manner as where an individual borrows of his banker. Of course it would be only by this creation of new credit that the banks could subscribe for the loans in toto, the proposition to which Mr. Goodenough was addressing himself. Moreover, where the banks paid for their investments by borrowing at the Bank of England, the new credit would be created by that institution and appear in its increased loans.

The Circle of Payments.

It is interesting to follow the process by which the Treasury's borrowings of credit are gathered in, then distributed and eventually find their way back in the form of customers' deposits to the banks from which they are originally drawn. The subscriptions to a loan are payable in instalments, and the subscribers draw upon the banks in which they have deposit accounts, transferring credit to the Treasury. These credits are gathered into the Bank of England, and from there disbursed by cheque in payment for war materials and supplies. The recipients deposit the cheques in their own bank accounts and draw in payment of their own bills, with the result that in due course a complete redistribution is effected.

This is very simple, and the casual observer may think there is no reason why the operation cannot be repeated indefinitely; and so indeed it may be if all the subscribers to the loan are paying their subscriptions out of income. In this event each loan gets out of the way of its successors, leaving them a clear field. But if the subscribers borrow of their bankers for means of payment, and these borrowings are permanent, the re-distribution when completed will show a general increase of deposits corresponding to the increase of loans. The only way the deposits which have been created by loans can be finally disposed of is by having cheques drawn against them in payment of loans. Such a payment brings down both sides of the balance sheet.

It does not follow because these deposits find their way back to the same banks that the situation is just as favorable for another loan as it was before. These public loans, if they are to go on indefinitely, must be taken up out of net private income. The government may give a check for a million dollars to a munitions manufacturer, but the latter cannot subscribe the whole amount to a new loan. If he has a profit of ten per cent., this is the amount which he can subscribe to the next loan, provided he does not require any of the profits for his private living expenses. The rest of the $900,000 he disburses in the conduct of his business, and so much of it as his employes and sub-contractors are able to save they may invest in the loan. And so out of each loan only a portion can be caught up and made available for succeeding loans; the rest must come from savings elsewhere, or be supplied by means of new credit through the banks.

More Reserves Required.

It is obvious that these new deposits, created by loans, do not increase the ability of the banks to

make more loans. They are a liability, not an asset, and as they bring no new reserve money they impose upon the banks the necessity of finding more reserve money, unless reserve percentages are to diminish. In the case of the English banks a credit at the Bank of England is included with cash reserves, but, as such credits increase, the Bank of England must find gold reserve for them, or suffer its percentage to be lowered. However, since a reserve of 20 or 25 per cent. is considered quite sufficient for the Bank of England at this time, and deposits there serve as a similar reserve for the banks with which the public commonly does business, it will be seen that the banking organization enables gold in the central reserve fund to have great sustaining power when measured against the volume of bank credit.

Moreover, the Treasury furnishes another form of credit which is good in the reserves of all banks except the Bank of England, i.e., the exchequer notes, against which there is a reserve of about 20 per cent. at the Bank of England. How much gold there is in England which could be turned into the central reserve fund we do not know, but doubtless there is a very considerable amount. Sir Edward Holden stated that his bank held $35,000,000 in gold at the close of the year. The Bank of England by the last statement before the war showed a reserve of coin and bullion of $183,357,000, which was 40.3 per cent. of its demand liabilities, while the first statement of 1917 showed $276,155,550 of gold, which was 18½ per cent. of its demand liabilities.

Besides requiring increasing reserves, the inflation of bank credit has an undesirable effect upon prices, as indicated by Mr. Goodenough in the quotation above, so that the business of the country, including the prosecution of the war, must be conducted upon a rising scale of costs. The bank deposits are a form of currency, and when they increase faster than the volume of business their value depreciates as in the case of other forms of currency.

How the Loans Have Been Raised.

After allowing for the increase of investments and loans of all kinds in the 19 principal English banks and the Bank of England, and for the sales of securities and borrowings abroad, there remains the sum of about $9,000,000,000 which the people of the British Isles had subscribed and paid to the war loans, up to the beginning of 1917. It has been estimated that in normal times $2,500,000,000 was employed in the British market in handling commercial bills, foreign and domestic. This business is very much diminished in war times. All that portion of British industry which is employed upon war work is financed by the war loans and the enormous cash payments by the government together with higher profits, have created a general situation of financial ease. The reports of bank officials at their annual meetings commonly refer to the scarcity of commercial bills and to the employment of funds in Treasury bills. Therefore, besides the increase of bank loans, there has been a diversion of funds from commercial bills to Treasury bills, amounting to possibly $1,000,000,000 to $1,500,000,000.

These various deductions from the total of war loans bring the amount to be provided out of current income down to $7,500,000,000 or $8,000,000,000.

The general situation is inflated. Prices are high, the government's borrowing is necessarily greater in consequence, and, on the other hand, the income and profits of the people are correspondingly increased. Although 5,000,000 men have been withdrawn from industry for the army and navy, this reduction in the working force has been overcome by the more effective organization of industry, the employment of women, and the stimulated exertions of the people. The case of the London City and Midland Bank, as stated by Sir Edward Holden, probably illustrates the entire situation. Three thousand men of the bank's staff are with the colors, 2,600 women have been employed, and the business goes on. Before the war the savings of the British people were estimated at $2,000,000,000 to $2,500,000,000 annually, and it is not improbable that with complete employment, high wages, the principal industries driven to full capacity, unusual profits, and an urgent motive for saving, they may have risen to $3,000,000,000 or $3,500,000,000 per year.

The New Loan.

Since the above was written the results of the new British war loan have been announced by the Chancellor of the Exchequer, and they are more remarkable than any previous achievement in finance. The subscriptions aggregate $5,000,000,000, not including any conversions excepting $600,000,000 of short treasury bills. It is stated, furthermore, that the banks have not subscribed on their own account, although they gave the public liberal encouragement to borrow for that purpose. It is evident that no such total could have been reached otherwise, and the *London Times* has described the arrangement under which these accommodations were granted as follows:

> The basis of the "facilities" agreed upon between all the important banks is that, on the security of the new Loan stock and with no other collateral required, they will lend at 1 per cent. below bank-rate varying, with a minimum charge of 5 per cent. interest, up to a margin of 5 per cent. on the issue price. This practically means that, towards the £95 required for subscribing for £100

STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS FEBRUARY 23, 1917.

(In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco	Total
Gold coin and certif's. Settlement fund. Cr. Balances	12,740	138,403	24,070	15,010	5,373	5,736	31,523	9,553	11,410	7,562	6,948	13,027	281,355
Gold Settlement Fund	17,825	53,768	10,855	26,510	16,826	5,197	32,694	2,302	4,457	27,358	7,660	8,409	213,861
Gold Redemption Fund	[illegible]	250	[illegible]	[illegible]	448	478	[illegible]	19	125	149	22	15	1,922
Total gold reserves	30,615	192,421	35,025	41,586	22,647	11,411	64,417	11,874	15,992	35,069	14,630	21,451	497,138
Legal tender notes, Silver certf's and Sub. coin	226	7.831	233	202	121	1,231	927	2.822	711	81	819	45	15.249
Total Reserves	30.841	200.252	35.258	41,788	22,768	12.642	65.344	14,696	16,703	35,150	15,449	21,496	512,387
5% redemption fund—F. R. bank notes										300	100		400
Bills discounted, Members Commercial paper	2,969	2,066	1.304	1,963	3,710	2,219	1 198	556	2,467	500	1.141	164	20 266
Bill bought in open market	12,749	[illegible]	14,130	10.484	6.631	3,444	10,689	8.446	6,940	4,950	2,517	9,552	123,966
Total bills on hand	15,718	35 450	15,434	12.447	10,391	5.663	11.887	9.002	9.407	5,459	3,658	9,716	144.232(c)
Investment U. S. Bonds		71		4,985	442	50	5.961	2.203	1,409	8,518	3,403	2,429	29,471
One-year U. S. Treas. notes	1,666	726	1,999	1.820	1,969	1,491	2,962	891	1,230	963	1,430	1,500	18,647
Municipal Warrants	611	5,534	1.431	2,962	15	124	2,842	1,127	515	492	506	965	17.124
Total Earning Assets	17,995	41.781	18.864	22,214	12,817	7.328	[illegible]	13.223	12,561	15.432	8,997	14,610	209,474
Federal Reserve Notes, net	[illegible]	14,958		[illegible]			2.738				[illegible]	2,446	22,076
Due fr. other F. R. Bks. net	1.409		1.995	159	[illegible]		10.307			55		1.431	732(b)
Uncollected items	15.257	29,590	17,133	11,731	7,969	8.977	14,524	9.562	4,063	8,540	4,560	5,034	136.940
All other resources	[illegible]	313	280	266	102	2,225	668	2,201	108	187	1.510	343	8.271
TOTAL RESOURCES	66.409	[illegible]	73.530	77.017	44.725	31.172	117.233	[illegible]	33.435	59.664	30.852	45,360	890,280
LIABILITIES													
Capital Paid in	5,083	11,888	[illegible]	6,087	3,412	2,419	6,950	2,800	2,407	3,074	2,695	3,915	55,989
Government Deposits	340	[illegible]	1,191	1,079	1,516	1,859	937	334	632	146	832	1,374	13,407
Reserve Deposits, net	49,783	233.368	[illegible]	[illegible]	26.048	19.972	[illegible]	27,372	26,679	46,116	25 005	37,007	692.475
Federal Reserve Notes-net	11,109	23,712	[illegible]	11,649	7,709	3,235	12,881	[illegible]	2,178	7,147	2,130	2,979	108,826(a)
Federal Reserve Bank Notes in circulation			[illegible]		6,040	2,935		2,827	992	3.181			19,061
Due to other F. R. Banks net		13.885				753		318	547		190		
All other Liabilities	94	205	[illegible]									85	522
TOTAL LIABILITIES	66 409	286.894	73,530	77.017	44,725	31.172	117.233	39.682	33 435	59.664	30 852	45.360	890,280

(a) Total Reserve notes in circulation 303.171.

(b) After deduction of net amount due to other Federal Reserve Banks, 732, the Gold Reserve against Net deposit and note Liabilities is 71.4% and the cash reserve is 73.6%. Cash Reserve against net deposit and note liabilities after setting aside 40% Gold Reserve against net liabilities on Federal Reserve Notes in circulation 73.6%.

(c) Bills and acceptances; municipal warrants: 1–15 days 38.154; 16–30 days 34,073; 31–60 days 50,528; 61–90 days 24,432; over 90 days 14,169. Total 161.356.

of the new Five Per Cent. Loan, the approved customer can borrow £90 from the bank and need only provide £5 himself. As against his annual dividend of £5 he will make himself liable—at 5 per cent. interest—to paying £4 10s. to the bank for the advance. He will probably find that the advance is made on the stipulation that it requires to be renewed from time to time, starting from three months after May 30, when the last instalment on the Loan falls due, and that, formally, the terms as to interest may then be altered. But if he talks the matter over with his banker, he will also probably find that renewal for a reasonable time will, in fact, present no difficulty, and that there is very little chance of bank-rate (now 5½ per cent.) rising over 6 per cent., or of the banks charging a sound customer more than the 5 per cent. interest now payable.

The German Loans.

The total of Imperial German loans to January 1, 1917, as shown above, was a little above \$11,000,000,000. We have no recent figures for the condition of the German banks other than the Reichsbank, which corresponds in its functions to the Bank of England. From July 23, 1914, to January 1, 1917, its loans and discounts, including Treasury bills, increased from about \$200,000,000 to about \$2,124,000,000, or by approximately \$1,924,000,000. In the same period its gold reserve increased from \$323,000,000 to \$625,000,000.

1917

Economic Conditions
Governmental Finance
United States Securities

NEW YORK, APRIL, 1917.

An Eventful Month.

THE past month has been one of the most eventful since the beginning of the war, and will be distinguished in the world's calendar for one of the most notable political revolutions of history, the passing of Russia to a democratic government. The ease with which this was accomplished and the readiness with which it has been accepted indicates that the spirit of democracy has permeated all classes, and that public opinion was ripe for the change. The government is in capable hands, order and authority are maintained, the public faith is upheld, the relations of the country with its allies are strengthened and made more intimate and secure.

The manner in which the change has been accomplished is immensely creditable to the Russian people, and calculated to give assurance everywhere that this great country will be an amicable and trustworthy member of the family of free nations. The power of Russia is so great and destined to be so much greater that the whole world is concerned that it shall be governed and directed under the open methods and pacific policies that naturally characterize a democracy. It may be surely said that there will be less reserve and misgiving in England and France toward the Russian alliance now that their dealings are with a democratic government, and although the United States has had occasion to recognize the friendliness of the Russian ruling house, the people of this country would be false to their own principles if they did not welcome the opportunity to have relations face to face with the chosen representatives of the Russian people. Sweden will have less apprehension of her great neighbor. Finland has already been assured of the restoration of her liberties, and Poland has the hope of a new national life. The pacific spirit of the new authorities is indicated by the statement quoted from one of the ministers that Russia will be satisfied with Constantinople internationalized. Whether or not the change is welcome at the moment in the Teutonic nations, it carries assurance against aggression from Russia after peace is once established.

During the month China severed relations with Germany and according to dispatches, seized the German shipping in its ports. China is not organized as a war power, but if the war is long-continued the labor resources of China will be far from a negligible factor. Man-power is as important in the industries of the warring countries as on the fighting lines, and China can supply any number of men. Back of the allied lines Germany can contemplate all of the resources of Asia.

Waiting on Washington.

This country is at the brink of war, and already in the public judgment enduring acts of war by Germany, awaiting the meeting of Congress, which in consequence of recent events, has been set forward by the President from April 16th to April 2nd. The scruples that have been felt in some quarters against resenting the loss of American lives upon belligerent ships, or upon ships carrying contraband, have been satisfied by the loss of American lives upon American ships, headed for this country in ballast; by the sinking of American ships, with the loss of American lives, outside of the barred zones, bound for a neutral port, and by the sinking of Belgian relief ships, and other neutral ships, in the lanes dedicated to safe passage. These are acts of war deliberately directed at the United States, and more than carrying out the threats upon which diplomatic relations were severed.

After waiting more than a month to avoid any chance of precipitating a collision, American ships have been authorized and assisted to arm for self-defense and are now sailing their routes freely. An actual combat between an American ship and a German submarine is likely to occur any day. This is a state of war, and Congress probably will so declare.

The United States has stood upon the defensive from the beginning, asserting the rights of neutrals as they are claimed not by this country alone but by all the neutral nations of the world, and as they are defined even in treaties between this country and Germany. It has continued to negotiate over a period of two years, until Germany has said that negotiations are at an end,

that its policy is unchangeable, and emphasized this declaration by sinking our ships upon the high seas.

Now that this country finds itself in war discussion is busy as to the degree and manner in which it should exert itself. There is no longer any obligation or reason for confining itself to the defensive. There is nothing to be gained by making war timidly. When a country finds itself involved in war the best it can do is to make itself as effective as possible with a view to sustaining its rights and reaching an honorable peace as soon as may be. In the present instance it would seem to be the part of wisdom to let it be known beyond any possibility of a misunderstanding upon either side that this country joins the Entente allies with the intention of throwing its full weight into the struggle, by all means in its power, until peace is achieved by the defeat of the Teutonic allies. Obviously considerable time will be required to put a formidable army on the lines in Europe, but the fact that an army is training for that purpose will not be without influence. We can bear a part immediately in keeping open the seas and in supplying money and munitions for the campaign now about to open on both fronts. If Congress takes action as expected, the cause of Belgium, Great Britain, Canada, Australia, France, Italy, Russia, Serbia, Rumania, Portugal, is the American cause, without reservations, until the war is over. This is the inevitable situation.

Preparations For War.

The Council of Defence has been busy for many months planning for the organization of the country's industries to support the army and navy in the event of war, and the resources placed at its command are very great. The immediate requirements of the government will not in themselves amount to a very large percentage of the aggregate capacity, but coming at a time when capacity is already engaged for months ahead the effect is to make the situation more difficult for private buyers. This is particularly the case in the steel industry and with special reference to ship plates. There is the most urgent demand for plates for merchant ships, and the mills are sold up on their output far into 1918, but the government will have the first call if it wants it.

The whole industrial situation has tightened up, for besides the capacity taken up by government orders the imminence of government orders, has given a spur to other business. As is always the case when new demands develop there is a scramble all around to cover future requirements. It is evident that the productive capacity of this country will be used to the limit throughout this year, and until the war requirements are done with. In view of the national emergency it is time to sound a warning for patriotic reasons against all unnecessary undertakings or expenditures which will divert labor or money from the most important uses. Work which can go over to another year should be postponed in the common interest. The war needs should have the first call on the industries. For economic reasons also, this is no time for capital investments which can be made later.

One of the most important phases of preparedness is readiness to subscribe for the loans which will be offered by our own and the allied governments. The Federal Reserve Board has issued a statement, explaining that its announcement of last November was misunderstood. It not only says that the taking of foreign loans is a proper method of balancing the exchanges, but encourages all banks to carry such securities in moderate amounts, and to assist in placing them with the public.

In view of much that has been said of the ability of the banks to take a great government loan, it is well to emphasize the fact that it is far more desirable to have the loans taken by private parties. The economic difference between having the banks create new credit and having the public use the bank credit already existent was set out at length in this publciation last month, in connection with British government borrowings. If the banks create new credit, the effect will be to inflate the situation and increase the reserve requirements. Moreover, the bank situation should be kept free and strong to deal with the business situation. The late British loan was floated without bank subscriptions and bank subscriptions to the late $150,000,000 Canadian loan were all declined when it was found that the loan could be filled without them.

The banks should subscribe as the Board suggests, but chiefly with a view to distribution, and the American public should be prepared to take the bonds as a patriotic service. Saving for the loans should be in order here as it has been abroad. There are protests against economy on the ground that it may disarrange business and perhaps occasion losses and unemployment in some quarters. There is but slight danger of unemployment while the war lasts, and it will only be possible to supply labor where it is most needed by releasing it elsewhere. Business is inevitably disturbed by war, and everybody must adjust his affairs to the needs of the hour. When the labor supply is utterly inadequate is no time to make unnecessary work on the plea of keeping somebody busy.

General Business Conditions.

The railway situation is better, and trade is larger. Bank clearings for the first three months of the year outside of New York have been about 25 per cent. higher than last year, and last year they were about 50 per cent. over 1915, but the

gain for the past year has been mainly due to higher prices. The production of pig iron was at high water mark last October, when it was at the rate of 41,314,000 tons per annum, but in February the rate was down to 34,376,000 tons per annum, all on account of congestion on the railways, and now pig iron is up to $38 and $40 per ton for prompt delivery. The state of the demand for all kinds of iron and steel goods may be judged by the eagerness with which pig iron is being taken for delivery in 1918 at $35 per ton.

With the opening of spring and the slackening of the demand for coal for house-heating purposes, the coal situation is easier, but coal is up to stay while the industrial and railway demand remains what it is now. There is great activity in opening new mines, but no one knows where the labor for them will come from unless it is obtained by outbidding the operators of the old properties.

Raw cotton has moved up above 19 cents per pound, influenced in part by unfavorable weather reports from the South. East of the Mississippi now the weather is too wet and in Texas it is too dry. The season is late and that makes the weevil more difficult to combat. Cotton goods continue to move readily and prices are firm. Wool holds very high, and it is said that more than one-half of the Montana crop has been contracted on the sheep's backs at 40 to 45 cents per pound. The British authorities have permitted American buyers to bid on 10,000 bales at the London sales this month. Woolen and worsted goods are expected to be much higher to the public next fall.

Building operations for the first three months of 1917 make a showing about equal in amount involved with those of a year ago, but in view of the advance in costs it is quite certain that the amount of work is reduced.

The labor situation is serious everywhere under the pressure of advancing prices for food and other necessities.

Financial Conditions.

There is absolutely nothing in prevailing monetary conditions to indicate that the country is on the verge of war. Money is as easy as the proverbial old shoe. Credit is granted with customary freedom for the usual commercial requirements, and there is not much demand for other purposes. The international situation has been strained so long that the element of surprise is eliminated and the public is fully prepared. The countries of Europe have passed through nearly three years of war without serious financial alarm in any of them, and industry and trade may be expected to go on here with less interruption than with them. This country has had two years of great prosperity to strengthen it, while they have been undergoing losses of every kind.

The figures of the statements of the national banks on March 5 are not yet compiled, but it is evident that deposits the country over have made a new high record, and apparently reserves are slightly greater than in December. Gold continues to come into the country, and the movement to the interior which was suspended in January and February has been resumed. The Federal reserve bank of this city lost $58,000,000 through its settlements with the other reserve banks in March. This is a normal distribution of the huge amounts due for the products of the country sold at high prices.

The figures for demand deposits, loans and discounts, legal reserves and surplus reserves of the New York Clearing House banks on March 24, 1917, December 30, 1916 and April 1, 1916 are shown herewith:

	March 24, 1917	December 30, 1916	April 1, 1916
Demand deposits	$3,659,266,000	$3,334,272,000	$3,402,301,000
Loans and discounts ...	3,582,286,000	3,339,450,000	3,370,348,000
Legal reserves.	774,282,000	691,842,000	705,394,000
Surplus reserves	142,765,360	117,335,690	123,823,000

The Secretary of the Treasury has borrowed upon certificates of indebtedness at two per cent. interest, $50,000,000 from the Federal reserve banks, in anticipation of the income tax payments which will come in June. The deficit in the revenues for the present fiscal year to March 27th was $183,808,916.

The President will probably lay before Congress immediately a request for authority to do the permanent financing which will be required, and it is expected that his plan will not only provide for the expenditures of our own government, but for extensive loans to the countries to which by our entrance into the war we will become allied. Great Britain despite her own heavy expenditures has been lending largely to her allies, and even France has participated in loans to Italy, Belgium and Serbia.

The authority now existing for bond issues is for the amounts and upon the terms described below:

Authority to Borrow Money.

Under Section 400 *of the Revenue Act of March* 3, 1917. To meet expenditures for Alaskan Railway, on account of the Mexican situation, for armor plant and the purchase of the Danish West India Islands, bonds to be redeemable and payable within 50 years, at not exceeding 3% per annum	$100,000,000
Under the second proviso of Section 400 of this act and for the purposes enumerated above so-called Panama bonds to run not more than 50 years, at not exceeding 3% per annum, about..........	222,000,000
Under Section 32 of this act, to meet public expenditures, certificates of indebtedness, not exceeding 3% interest, and running not longer than one year..........	300,000,000

Under H. J. Resolution 390. For Naval Construction or the expediting thereof, serial bonds maturing in equal amounts from date of issue to 20 years from that date, at not exceeding 3%	150,000,000
	$772,000,000

The Food Situation.

The closing months of the crop year finds this country with a smaller stock of all kinds of food than at any time in many years, and when the world situation is considered, the outlook becomes such as to demand the most serious attention of our people. We have referred to this subject in each issue of this publication in recent months, but as time passes the importance of arousing a nation-wide interest becomes more evident.

The government report of grain stocks on March 1st shows that at best there will be no carry-over of wheat. There is not enough in the country to allow of exports to July 1st equalling those of the corresponding period last year, without trenching upon the home requirements for bread and seed. How much is now owned for export is unknown, but stocks are unusually light in all European countries, and on account of the scarcity of shipping, ocean charges are much less from America than from Australia or India, which are the only other countries which can supply much wheat between now and July. Argentina has now put an embargo upon exports of wheat and flour. Latest reports from Russia are that there is no accumulation of wheat at the seaports, and that owing to inadequate storage facilities in the interior much of the surplus production of that country has been wasted.

All the grains are selling in our primary markets at higher prices for cash than for the May delivery, indicating that the supply scarcely meets the current demand. Millers are paying $2 per bushel for wheat at Kansas City, corn has sold as high as $1.19 per bushel in the same market, and oats are bringing several cents above the Chicago price at railway stations in central Illinois for shipment to the South.

Cattle, hogs and sheep have advanced during the past month to new high records, selling in Chicago market up to and above $15 per hundred pounds, live weight. On the 21st instant the top price on hogs in Buffalo was $16, in Chicago, $15.30; Indianapolis, $15.40; St. Louis, $15.40; Kansas City, $15. A pig weighing 165 pounds brings about $25, against about $16 at the average price throughout 1916. The total receipts of hogs at eleven principal markets from January 1st to March 28th, were 8,003,000, or 1,110,000 less than in corresponding period last year. This is the result of a short corn crop, which forced heavy marketing last fall.

Foreign reports upon growing crops indicate that all the importing countries will be even more dependent upon America next year than in the year now closing. Germany is unable to import, but the recent warning of the Vice-Chancellor that the German people must be prepared for another short crop is indicative of general crop conditions in Europe. The Chairman of the Committee on Agriculture of the French Chamber of Deputies estimates that France will have to import during the coming year 127,000,000 bushels of wheat, which compares with 57,000,000 in 1913 and 26,000,000 in 1912. The British government has taken action to induce an increased home production by guaranteeing a minimum price for home grown wheat of $1.40 per bushel, with a maximum of $1.90; this offer to stand for six years. An offer to take the entire Canadian crop for 1917 at $1.30 per bushel at Fort William has been rejected by the Canadian agricultural societies, which have made a counter-proposal of $1.50.

American Outlook.

The United States entered the crop year beginning last July with a carried over stock estimated by the Department of Agriculture at 164,000,000 bushels. The 1917 crop amounted to 640,000,000 bushels, making the total available supply 804,000,000. The exports of wheat from July 1, 1916, to March 24, 1917, including flour, amounted to 255,733,839 bushels against 322,021,516 bushels in the corresponding period the preceding year. The winter wheat area this year is 40,090,000 acres, which is about 900,000 acres larger than last year's. The crop wintered badly last year, the amount ploughed up being unusually large, but the present outlook is no better. Conditions in the spring wheat territory are favorable, on account of the heavy snow-fall, but beyond that it is too early for signs. We must grow at least 200,000,000 more bushels of wheat this year than we did last in order to meet the world's demands upon us and have as much for our own consumption as we have had in the past year, and at this writing the prospect for such increase is not encouraging.

Stocks of canned goods will be cleaned out. A trade letter from Baltimore, which is one of the most important markets for canned vegetables, says:

> "How high will prices go?" No condition has existed in past years with which the present situation can be compared. Figures that two months ago looked absurdly high are now way below the market.

The situation as to the supply of tin cans for the new crop is giving concern, but is being handled by a committee which includes representatives of the tin plate manufacturers, railroads, canning companies and the government.

In all parts of the country there is now a live interest in this year's crop, but from many quarters the comments are pessimistic as to the possibility of doing anything to stimulate or insure an increased production. The farmers will do the best they can it is said, but the shortage of labor cannot be overcome, and the problem is too large

to be dealt with in the hope of immediate results. A correspondent writing from a good agricultural county of New York says:

The farmers (with exceptions) are between the devil and the deep sea—they hardly know which way to turn, the short crops of 1916, and the extremely high cost of everything they feed their stock or put on their table, also clothing and shoes, has found them coming out of the winter with all of their money gone. Many with a mortgage and old bills unpaid and prospects of prohibitive price of seed for the coming season. Only about one farmer in five have seed potatoes. I look for a very small acreage around here.

I know several farmers that are going to sell their stock and practically abandon their farm in a way. They say they have to pay such a high price for seed, they have all the weather conditions to contend with, and in the end may be worse off than they are now.

Another very serious factor is labor, all of the grown-up boys and girls are going to the towns and cities, lured there by high wages in factories and stores, where they only have to work eight hours.

The eight-hour-day is the worst black eye agriculture ever got, for it is impossible to adapt it to farm work. The only ones left on the farm are the old folks and small children; when a man attends to a few cows, horses, etc., what time has he left to cultivate many acres?

How to help or finance the farmer is a problem. If there was some way to advance him seed, but the question is so complex and would require such a vast sum that the idea is staggering. But if some method is not worked out, you are going to see shorter crops, higher prices, and more hungry people than ever before.

There are many reports of a shortage of seed, particularly of potatoes in localities where last year the crop was a failure. The New York State Commissioner of Agriculture has conducted an inquiry as to farm conditions in this State, and summarizes the result as to potatoes as follows:

The high prices prevailing for seed potatoes, the difficulty in obtaining satisfactory quality, and the scarcity and high cost of farm labor will undoubtedly have a serious effect and greatly reduce the acreage in this State.

We understand that unless steps are taken to remedy the situation the acreage in potatoes in New York State in this year of greatest need, is likely to be reduced from twenty-five to forty per cent. from what it ordinarily is. A letter from the Acting Dean of the New York State College of Agriculture, Cornell University, refers to the labor situation on the farms as follows:

Equally important this year is the extreme shortage of labor, making it impossible to get the work done. Prof. Montgomery recently made a canvass of a number of farms lying east of the University and he found only one hired man on ten farms. I do not know how representative this may be, but the situation is acute. Farmers are paying unprecedented wages to labor, but they still cannot compete with the factories.

The Bureau of Labor, Washington, D. C., has compiled statistics from which it concludes that 16 per cent. of the farm laborers of the country have gone to the towns for employment within the last year.

What Can Be Done.

While it is true that the situation of agriculture, and its relation to the national welfare, requires more comprehensive treatment than can be hastily given, there is reason to believe that much can be done which will show results in this year's crop, if the business men of all localities will rise immediately to the occasion. Foreign governments are buying farm tractors in this country in large numbers in order to make good the shortage of labor. A call for enlistments in this country will probably draw hundreds of thousands of young men from the farms, and unless their loss is made good by implements and the labor of women it will appear in a reduction of the crops. The question of seed supply is important. The threatened reduction of potato acreage in New York State is because seed is not to be had locally, the price is very high, and unless there is an organized effort to supply seed the planting will be curtailed. Something needs to be done to overcome inertia and make it convenient to do the usual planting and increase it. The fertilizer question is an important one. The short supply of potash is an unfavorable condition for the potato crop which should be overcome as far as possible. Every available pound of fertilizer should be used on the crops this year. The choice of crops to be planted in view of conditions this year is a matter upon which expert advice may be wanted. And finally there is an important amount of labor in all towns in the agricultural districts which can be loaned to the farmers at the critical periods. This would be systematically done if it were a life and death question in each locality—and this year there is a world emergency which calls for just such organized effort. Every county should have a committee composed of leading business men to plan and manage a general campaign of co-operation to get the most that can be had out of the soil. A Wisconsin banker recommends that much road work can be suspended this year, and there is work of many kinds that can be laid aside for the present. A little money or credit which a farmer may hesitate to solicit may be of material assistance in enlarging the yield of his farm, and it comes home now as never before that the whole country is interested in the yield of each farm. Moreover, the lessons taught by one year of such co-operation will be of lasting value. The services of a County Agent will be exceedingly useful in connection with such a county organization, and the aid of the national government can be had in paying for his services.

The largest opportunity for increasing farm production is in the Southern States, where even the farmers have been accustomed to buy from other sections of the country a large part of the food supplies for themselves and work animals. The world can put off the purchase of clothing longer than it can the purchase of food, and under present conditions the South cannot afford to rely upon cotton as a means of obtaining its own food.

Vegetable Gardens.

After all is done that can be done in the way of stimulating farm production, it is perhaps true that the best chance for immediate results is in the extension of garden cultivation, because the time to work small garden plots can be found outside of regular avocations. The supply of common vegetables can be very largely increased by the gardens, but the extension of gardens also requires organized effort. Ground must be provided and placed at the disposal of those willing to use it. Instruction may be needed in the application of fertilizers and in cultivation, and aid in securing seeds. In every village of this country this matter should be taken in charge by some organization. A garden club, in which all the local civic organizations are represented, is a good medium of operations. In some localities the women's clubs are taking up the work, in others the commercial clubs are leading off. In Richmond, Virginia, the school board has undertaken to supply vacant lots for cultivation by the school children, and this is an excellent idea for general adoption. There is nothing which it is more desirable to have taught to the children than the mysteries of plant life and the processes by which food is produced. If this emergency is intelligently seized upon to create a wide interest in agriculture and in garden cultivation most valuable results will follow.

The people who have grounds and help to work them should make it a point to grow their own food, thus diminishing the demands upon the market. Public institutions which have ground that can be utilized should do the same.

A most encouraging development is the movement by large employers to provide garden plots for their employes. The Carnegie Steel Company has rented 200 acres of land near its Youngstown works which it will subdivide and offer to employes for their cultivation. The company will plow the land and supply fertilizer. Numerous similar announcements are made, indicating that the movement may become widespread, and it is highly desirable that this shall be the case. The employer is interested because the whole industrial situation may be disorganized by high prices for food, and the wage-earners are interested because unless sufficient food supplies are grown no possible wage-advances can provide enough for all.

An Alarming Situation.

The main facts of the situation are such as must appeal to every one. The whole world is bare of food supplies, and dependent upon the crop of 1917. The fields of Europe are poorly tended and scantily fertilized, with the result that a short crop is already foreshadowed. Our own winter wheat crop is unpromising. We are on the verge of war, which will make necessary a call of men, many of whom will come from the farms, and the withdrawal of others from shops will create vacancies which to some extent will be filled from the farms. The first essential requirement in time of war or time of peace is that the people shall have food, and with world conditions what they are now this country cannot afford to allow the food supply for the coming year to be determined by the ordinary influences affecting production. In time of war governments resort to conscription to fill the armies, and abroad they are taking hold of food production in the same manner. There is no time now in this country for anything but voluntary effort, but there should be enough of spontaneous initiative and enterprise in every community to take the action which the common interest plainly requires. It is the first and immediate opportunity, in which every community can share, to do something for preparedness, and it is a patriotic duty. There is no danger of an unprofitable crop upon the farms, or that the people who grow their own vegetables will lose money by it. A very great effort is necessary in a matter of this kind to make any considerable change in the total production of the country, and as the planting season is now on there is not a day to be lost. The price of food next winter, with all that hangs thereon, depends upon the efforts of the next few weeks. We venture to hope that the bankers of every locality will be among the first to move for community action.

An officer of the Yale National Bank, New Haven, in a recent letter writes as follows:

"We have talked this matter over in our Board meetings many times and have arrived at the conclusion that we ought to do something to help it. The result of this talk has been that we are about to place a man in the field to go around in this section among the agriculturists and cooperate with them, finding out their needs and having the bank help them in a financial way. This, of course, only applies locally, but we hope that all of the banking interests will become more directly concerned in this promotion of farming matters. We are beginning to realize that we have too many consumers in this country to producers."

Regulating Commodity Prices.

We are approaching the end of the crop year 1916-17. Already new supplies are beginning to appear in the markets. It has been a year of scarcity, of high prices, of hardship to people of small incomes, and naturally of many complaints that prices were artificial. Now that the season is nearly over it is possible to judge of the facts more clearly than at an earlier date. The test of whether prices were artificially high is found in the prices and state of supplies at the end of the season. It is recognized by economists that high prices play a legitimate and even necessary part in conserving supplies when there is an actual shortage. There is no influence so effective in se-

curing widespread economy in consumption and in the use of substitutes. It is therefore accepted that when a shortage exists it is better that the fact should be known, and that the restrictive influence should be felt from the beginning, than that prices should be held down to normal with consumption proceeding as usual until supplies are practically exhausted.

The government report of food in cold storage on March 1st last shows that the supply of eggs was 86 per cent. below that of the same date in 1916, and all food supplies were materially lower. There is no carried-over surplus, nor is there any general break in prices as the season's supply approaches the end. Throughout the winter the level of prices has been about the same in country towns as in the large cities. The numerous investigations and prosecutions have come to nothing.

It is clearly desirable that there should be a general comprehension of the fact that the high prices of the past winter have been due to failure to grow and store enough food last summer. The same experience will be repeated next winter, perhaps more severely, unless production is increased.

The Paper Situation.

The efforts of the Federal Trade Commission to ameliorate conditions in the paper trade present an interesting study. In the first year of the war the paper trade was depressed, but as prosperity came to other branches of business they all began to use more paper of all kinds. Advertising increased in the newspapers, requiring more pages, their circulation increased, and the demand for paper finally exceeded the capacity of the mills. There not being paper enough to go around, the consumers unprotected by contracts had to go into the open market and bid against each other, not an agreeable proceeding but the common method of apportioning an insufficient supply of anything. Even high-priced lawyers, artists and singers apportion their services upon the same general principle, putting their prices high enough to limit the applicants to a number they can serve.

The fact is usually lost sight of that in time of scarcity and advancing prices the producer ceases to be the controlling factor in price-making. If he should sell at the normal margin, the market price would go up just the same, as we know it does in the case of such staples as wheat and pig iron. When producers are sold up the dealers and consumers make the market. There is no good reason based on the public interest why a producer with due regard for the amenities of trade, should not have the benefit of a naturally advancing market, when free from contracts. He is obliged to accept the unfavorable developments, and as a rule he needs all the favorable ones to bring him out with a fair average of success.

The paper business was demoralized for several years before the war by unprofitable conditions, and whether a trade agreement had anything to do with the recent rise of prices or not it is quite certain that the state of supply and demand was the fundametnal reason. The Trade Commission has undertaken to fix the price of print paper at 2½ cents per pound by securing an agreement on the part of the manufacturers to sell at that price, but has also undertaken to get an agreement on the part of all consumers to reduce consumption to the extent of five per cent. in order that there will be enough to go around. This is asking all consumers to sacrifice the same percentage, regardless of the different degrees of sacrifice which this curtailment may involve. The arrangement would be very welcome to the publisher who is unprotected by contract, and it may be quite unwelcome to a rival who is well covered as to his wants, or who is more interested in increasing his circulation than in the saving on paper.

It will be seen that the Commission has grasped the fundamental fact that in dealing with a scarcity it is necessary to reduce consumption. Many people appear to think that the only objectionable thing about a scarcity is that it enables certain reprehensible persons to put up prices. Even the Commission refers to the fact that prices have advanced more than costs as though this in itself was prima facie evidence of wrongdoing. But, as we have seen, the higher prices constitute the natural means of eliminating a portion of the demand, and if this influence is discarded some other method of elimination must be found. Who knows that the horizontal reduction adopted by the Commission is more advantageous to the public? The wastage of print paper is large and there is no better way of curtailing it than by means of the natural price. Moreover, is it not a fair presumption that the curtailment of consumption which occurs first under the influence of high prices will be the curtailment of least concern to the public?

Admitting that price-fixing powers may be exercised in great emergencies to the public advantage, particularly in dealing with necessities, the chances for error are too numerous to justify common attempts to supercede the law of supply and demand. Every one can make his own calculations upon the latter, but if the situation is complicated by arbitrary governmental regulation the confusion will be increased.

Railway Wage Settlement.

The country has been relieved of the threat of a railway strike which had been hanging over it for nearly a year, by the action of the railway companies in yielding to the demands

of the brotherhoods, although the decision of the Supreme Court upon the Adamson law, rendered a few hours later, would have accomplished the same result. The prospect that this country was about to become involved in war had become so imminent, that the railway officials were impressed that they would not be justified in carrying their resistance to the point of allowing railway operations to be suspended.

The fact that they yielded has been hailed as a great victory for organized labor, and it is doubtless so regarded by the radical element. It can hardly be denied that radical leadership is sustained and encouraged by the action of the companies in yielding, but whether that element is really in a stronger position for the future is not so certain. In the long run public opinion will rule over both railway companies and railway employes, and the Supreme Court has rendered an opinion which directly condemns the policy by which the so-called victory was accomplished.

Supreme Court Decision.

The decision of the Supreme Court, which was rendered by a vote of five to four, is based upon the right of Congress to regulate interstate commerce, which right is held to extend to action necessary to "save and protect the public interest" where the latter is imperilled by the failure of the railway companies and their employes to agree upon a wage standard. The reasoning is that where the right is admitted to exercise authority for such minor purposes as to prescribe reasonable rates, to safeguard the persons of employes, etc., the right is implied to remedy a situation which if not remedied would destroy the railway service entirely, leaving "the public helpless, the whole people ruined, and all the homes of the land submitted to a danger of the most serious character."

The decision holds that in so far as the act fixes wages it is a temporary exercise of the power, pending an agreement between the companies and their employes, and for the purpose of avoiding the suspension of service.

The dissenting opinions urge that the act is not a regulation of commerce within the meaning of the constitution, but an attempt to regulate the internal concerns of the carriers, not differing from an attempt to regulate what they should pay for coal or for interest on borrowed money; that conceding the right of Congress to fix wages, the power must be exercised subject to the constitutional guarantees, and that inherently such action requires investigation and deliberation beforehand.

Authority of Congress Complete.

The main feature of the decision is the establishment of the principle that in the conduct of railways the rights of the public are paramount wherever the private rights of employers or employes come in conflict with them. The majority opinion affirms that Congress undoubtedly possesses the power to provide for compulsory arbitration. It says as to the carriers that by engaging in a business "charged with a public interest" they become subject to the authority to regulate possessed by Congress, and then goes on to say the same thing of the employes, in the following language:

> Here again it is obvious that what we have previously said is applicable and decisive, since whatever would be the right of an employe engaged in a private business to demand such wages as he desires and to leave the employment if he does not get them, and by concert of action to agree with others to leave upon the same condition, such rights are necessarily subject to limitation when employment is accepted in a business charged with a public interest, and as to which the power to regulate commerce possessed by Congress applied and the resulting right to fix in case of disagreement and dispute a standard of wages as we have seen necessarily obtained.
>
> In other words, considering comprehensively the situation of the employer and the employee in the light of the obligations arising from the public interest and of the work in which they are engaged and of the degree of regulation which may be lawfully exerted by Congress as to that business, it must follow that the exercise of the lawful governmental right is controlling. * * * In saying this, of course, it is always to be borne in mind that as to both carrier and employe the beneficent and ever-present safeguards of the Constitution are applicable, and therefore both are protected against confiscation and against every act of arbitrary power which, if given effect, would amount to a denial of due process or would be repugnant to any other constitutional right. And this emphasizes that there is here no question of purely private right since the law is concerned only with those who are engaged in a business charged with a public interest, where the subject dealt with as to all the parties is one involved in that business and which we have seen comes under the right to regulate to the extent that the right to do so is appropriate or relevant to the business regulated.

This is a carefully explicit, but sweeping assertion of the authority of Congress over all who enter the business of interstate transportation. And it is a common-sense view. Labor is not tied to a task; the right of an individual to quit work is undoubtedly protected by the constitutional guarantees referred to, as the security of capital against confiscation is likewise protected, but the right to conspire, combine and act together to force a suspension of the transportation service does not belong to the employes of railway companies under this decision. And in view of the inclination in some quarters to denounce the court as reactionary it is well to call attention to the fact that the two latest accessions to the bench Justices Brandeis and Clark, joined in the decision.

There is a moral order of society to which the actions of individuals and combinations of individuals must conform. Everyone derives benefits from the privilege of living and cooperating with others in a highly organized society, and therefore is under obligations to promote the unity, harmony and efficient work-

ings of the organization. The idea that a small group of men may take possession of the railways, either as owners or as an operating force, and either shut them down or exact their own terms for operating them, does not appeal to the average mind any more than it does to the court. The sooner it is abandoned the better for all concerned.

Not A Class Struggle.

Every clash between the railway companies and their employes is represented by labor leaders as a section of a general struggle between labor and capital, but those who look below the surface know that there is no general line-up of interests with labor on one side and capital on the other. There are numerous conflicts between individual employers and their workmen, and these extend sometimes to organizations of employers and organizations of wage-earners, usually in a single line of industry, as in the case of the railways and their employes.

The fundamental fact about industry, however, is that it is divided into groups, the employers and wage-earners of each branch of industry composing a group who give the product of their combined effort in trade for the products or services of the other groups. The capital and labor engaged in transportation compose a group which renders service to all the other groups and takes toll of all the other groups; and the more toll it takes the less the other groups realize in their exchanges. Every improvement made in transportation equipment or methods which results in a reduction of charges will reduce this toll and permit the other groups of producers to realize more in their exchanges. Within the last five years, taking capacity and economy of fuel into account the efficiency of freight locomotives on the Pennsylvania railroad has been doubled, at an increased cost in the construction of new types of locomotives of not over 30 per cent. On the other hand these and similar savings accomplished by an increased use of capital have been offset by such legislation as the "full crew" laws, the wage advances that have been granted, higher taxation, and the upward tendency in other expenses. But for the economies which the management has accomplished higher charges would have been necessary before now to meet these rising costs.

Every addition to the cost of transportation must come in the long run out of the other groups, whose products are transported, and so whatever increases the cost of production in any group increases the cost of its products to all the other groups, and this cost is finally included in the cost of living which so vitally concerns every wage-earner. If the cost of installing plumbing is increased it is quite certain that everybody who lives in houses that have plumbing will have to pay for the outlay. The issue is between the group of people who supply plumbing, and all the people who use plumbing. And if the cost of shoes is increased the final issue is not between employers and employes, but between the groups who supply shoe materials and make shoes on the one side and all the people who wear shoes on the other. The conflict between labor and capital in all such cases is a mere incident to the readjustment of prices. The ultimate and real conflict of interests is between the industrial groups as they exchange products with each other. The question today with each group is whether it is getting its charges up fast enough to offset the advances made by the other groups.

The farmers constitute an important group, and the present high prices for farm products might be expected to attract workers from the other industries to this one, which would be a very wholesome and desirable result, but these high prices are made the occasion for higher wages in the towns, so that the movement of labor is still away from the farms. This is making the industrial system top-heavy. Eventually the remedy for the advancing costs of living must be found not in always raising wages but in getting more people on the land.

Harmony Most Important.

It is evident to the thoughtful observer that if all the groups could be made more efficient and hence more productive they would all have more to give in the exchanges and all get more for consumption. Every group is interested that every other group shall use the most improved facilities, and that employers and wage-earners shall work in the spirit of cooperation and good faith to accomplish the best results. The doctrine of class warfare, with employers on one side and wage-earners on the other stimulates irritation and antagonism and impairs the efficiency of the organization. The American Federation of Labor includes the wage-earners of many groups, and evidently might be a great force for the advancement of industry, but the 400-page volume of its annual proceedings may be read from cover to cover without finding one sentence upon the advantage to the consuming millions of increasing production. Class warfare is the key note of the proceedings.

It may be freely granted that the responsibility for antagonism between capital and labor does not all belong to the latter—both sides can mend their ways—but the losses which mean real deprivation and that most seriously affect the public welfare fall upon the people of small incomes.

The real gains of the wage-earning class have come by improvements in the industrial organization, the methods of production, transportation and exchange. In accomplishing these

improvements, Capital—the savings and profits that have been accumulated—is a most important factor.

The average freight charge of the Pennsylvania railroad last year was 6 mills per ton per mile, an almost inconceivably small toll paid by the other industrial groups to this company and its employes for the service rendered. Such results are only possible from a competent organization, with great capital at its command and with an enterprising management ever striving to reduce costs. The average freight trainload has increased 57 per cent. in the last ten years, but the net revenue per train mile is slightly lower now than ten years ago, showing that the gains have all accrued to the public. A statement of its accomplishment in locomotive economies in the last five years is given above, and in this year, 1917, these economies will be all required to offset the rising price of coal.

A great saving of coal can be effected by the use of hydro-electric power, but this means that somebody must provide the capital for harnessing the streams and installing the equipment. And so every forward step in industry, leading to cheaper production or higher wages around the circle of industries, requires capital accumulations. The very profits which are said to be unfairly withheld from labor may be used for construction work and improvements which yield greater benefits to labor than would have resulted from the desired distribution in the first place. The real distribution does not always occur where it is looked for. The division of current production may be of less importance to the community than the further development of industry.

Railway Rates.

The railway companies are moving promptly to the presentation before the Interstate Commerce Commission of their claims for higher rates to compensate them for the higher wages which are required by the Adamson law and to meet the rapid increase in other operating costs. The railways had a year of good earnings in 1916, but the situation has been turning rapidly against them, as everybody who understood their predicament has known it must do after gross earnings had reached the limit. The roads entered this period of prosperity with a considerable amount of supplies on hand and contracted for. The increasing volume of business up to capacity made the earnings good and the offsetting expenses at first were comparatively small. Now that all expenses are on the prosperity basis the situation is very different. Coal is costing from 33 to 100 per cent. more, all equipment is from 50 to 100 per cent higher, and the entire run of supplies and materials is up accordingly. Now comes the increased cost of operating under the Adamson law, and probably higher wages for the other classes of employes.

The entire railway situation is unsatisfactory. The cost to the country of the freight congestion and delays of the last two years have been far more than the cost of an adequate service would be. There is no economy in the narrow, hostile, critical policy that is pursued, and on the other hand there seems to be no escape from it. The New York Central Company has been offering a small issue of new stock at par, but of course it is not taken, for the old stock can be bought in the open market under par. The Southern and Erie companies, both important systems, have bandoned attempts to negotiate bonds on a satisfactory basis and resorted to short-time notes, hoping for a better bond market later. The public is interested in industrials rather than railway issues. Meanwhile the country is outgrowing its railway facilities every day. If the attitude of the public authorities toward the railroads is criticized they retaliate with more criticism of railroad management, but this does not increase the railway mileage or enlarge the terminals.

The situation seems to offer a crucial test of the practicability of public supervision over private investments. No doubt, the public is willing to do what it is convinced is fair, but the task of convincing it does not appeal to the average investor. It seems to be impossible to present the vital facts in such manner that they make an impression, and so the situation drifts. It may drift to government ownership from sheer inability to provide the funds for expansion otherwise. That railway service under government management will be more costly and less progressive than under private management nobody familiar with industrial operations under the government will doubt. The history of the introduction of power printing presses into the government printing establishments, the existing legislation against efficiency methods in government shops, and the annual appropriations for rivers and public buildings are indicative of the degree of efficiency that might be expected in railway operations and in expenditures for extensions and new facilities. The government is constitutionally better qualified to supervise the management of others than to operate railroads on its own account, and when it has complete power of supervision there is no sound public reason why it should own the roads. Moreover, if it lacks the practical touch to make a success of supervision, it is not likely to make a real success of management.

American Securities Returned.

Mr. L. F. Loree, President of the Delaware & Hudson Company, who has been conducting a continuing inquiry into the return of foreign-held American railroad securities, has now published his third statement showing the

amount of such stocks and bonds which were transferred to American ownership between July 31, 1916 and January 31, 1917, to wit: $229,817,077, par value, or $185,556,444 market value.

Mr. Loree's figures have been compiled from the books of all railroad companies in this country having over 100 miles of road. His first inquiry was as to foreign holdings on January 31, 1915, and July 31, 1915. The amount at the first date was $2,704,402,364, and at the second date was $2,223,510,229. The second report showed $1,415,628,563 on July 31, 1916, and the third report shows that on January 31, 1917, they were reduced to $1,185,811,486, a total reduction of $1,518,590,878. All of these figures are for par values. His first compilation did not include market values, but the market values on July 31, 1915, amounted to $1,751,437,912 and on January 31, 1917 to $924,542,646. The figures indicate the cash value of the railroad securities repurchased to January 31 last to be about $1,200,000,000.

Of the amounts now listed as owned abroad a considerable share is deposited in this country as security for British and French loans.

The above figures are for railroad stocks and bonds only. There are no authentic figures for the aggregate of other securities, but the books of the United States Steel Corporation show that $92,803,500, par value, of its preferred and common stocks were transferred from foreign to American owners between June, 1914, and December, 1916. No figures have been compiled as to the amount of its bonds held abroad at the beginning of the war, but from May to November, 1916, the foreign holdings of its $200,000,000 issue of 10-60 year refunding bonds were reduced from $12,000,000 to $6,000,000. A $25,000,000 lot of the Carnegie bonds came back in 1915. In all, more than $125,000,000 of the stocks and bonds of the Corporation have been returned since the war began. The holdings of the common stock abroad are shown below:

Countries.	June, 1914.	December, 1916.
Canada	$4,312,900	$3,166,200
England	78,851,200	19,225,000
France	6,894,800	3,432,800
Germany	263,300	62,800
Holland	35,694,500	23,436,500
Scotland	368,800	48,200
Other countries	1,039,200	891,700
Total	$127,424,700	$50,263,200

(Continued on next page)

STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS MARCH 23, 1917.

(In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas. City	Dallas	S.Fr'sco	Total
Gold coin and certificates in vault	13,977	200,084	26,101	17,380	5,603	6,147	28,201	12,935	11,711	7,757	7,604	13,236	350,736
Gold Settlement Fund	21,015	21,241	16,841	26,017	16,085	4,041	43,870	4,240	8,641	26,153	7,568	13,569	209,281
Gold Redemption Fund	50	250	250	35	425	[illegible]	200	259	155	177	83	15	2,519
Total gold reserve	35,042	221,575	43,192	43,432	22,113	[illegible]	72,271	17,434	20,507	34,087	15,255	26,820	562,536
Legal tender notes, Silver, etc.	288	3,985	240	102	101	1,439	679	2,003	705	52	1,013	58	10,665
Total Reserve	35,330	[illegible]	43,432	43,534	22,214	12,247	72,950	19,437	21,212	34,139	16,268	26,878	573,201
5% redemption fund—F. R. bank notes										300	100		400
Bills discounted, Members	1,743	[illegible]	1,387	2,240	4,067	2,034	1,970	[illegible]	1,093	447	1,533	273	18,473
Bills bought in open mark't	10,738	21,400	[illegible]	6,542	6,719	3,655	9,041	4,555	5,170	2,368	1,636	5,488	87,798
Total bills on hand	12,481	[illegible]	11,873	8,782	10,786	[illegible]	11,011	5,353	6,263	2,815	3,169	5,761	106,271(c)
Investment U. S. Bonds		[illegible]		4,985	442	170	5,961	2,203	1,454	8,147	3,403	2,429	29,275
One-year U. S. Treas. notes	1,666	126	1,999	1,820	1,969	1,491	2,912	891	1,230	1,784	1,430	1,500	18,818
Municipal Warrants	298	5,199	1,378	3,066	15	7	2,648	1,094	177	486	506	887	15,761
Total Earning Assets	14,445	27,694	15,250	18,653	13,212	7,357	22,532	9,541	9,124	13,232	8,508	10,577	170,125
Federal Reserve Notes, net	1,335	13,287		878			2,199					1,741	19,440
Due fr. other F. R. Bks. net	1,664			1,920	[illegible]	2,479	396	316	1,950	1,636		1,768	3,298(b)
Uncollected items	13,787	29,605	18,514	11,609	8,567	7,367	21,090	10,118	3,723	9,814	5,067	6,496	145,757
All other resources	9	400	168	181	89	1,603	500	551	142	206	1,389	442	5,680
TOTAL RESOURCES	66,570	296,546	77,364	76,775	44,337	31,053	119,667	39,963	36,151	59,327	31,332	47,902	917,901
LIABILITIES													
Capital Paid in	[illegible]	11,880	[illegible]	6,090	3,408	2,414	6,999	2,795	2,415	3,089	2,698	3,941	56,057
Government Deposits	1,224	7,375	1,378	258	1,308	2,210	912	317	888	354	1,167	2,311	19,702
Due to members—reserve account	49,108	247,615	49,267	[illegible]	[illegible]	19,411	[illegible]	27,036	27,834	47,405	23,746	38,150	711,117
Collection items	11,074	22,577	18,100	11,434	[illegible]	4,643	15,172	7,223	2,433	7,227	2,604	3,429	113,784
Federal Reserve Notes-net			1,403		5,785	2,375		2,592	2,555	1,252	763		16,725(a)
Due to other F. R. Banks net		6,913	1,819								354		
All other Liabilities	96	[illegible]	137						26			71	516
TOTAL LIABILITIES	66,570	[illegible]	77,364	76,775	44,337	31,053	119,667	[illegible]	36,151	59,327	31,332	47,902	917,901

(a) Total Reserve notes in circulation 346,804.
(b) Difference between net amounts due from and net amounts due to other Federal Reserve Banks, 3,298: The Gold Reserve against Net deposit and note Liabilities is 79.0% and the cash reserve is 80.5%. Cash Reserve against net deposit and note liabilities after setting aside 40% Gold Reserve against net liabilities on Federal Reserve Notes in circulation 81.4%.
(c) Bills and acceptances; municipal warrants: 1—15 days 31,039; 16—30 days 28,462; 31—60 days 36,842; 61—90 days 22,627; over 90 days 3,662. Total 122,032.

The percentage of common stock held abroad in June, 1914, was 27.07, in December, 1916, 9.89. The percentage of preferred stock held abroad on these dates was 8.68 and 4.34.

In view of these figures upon the shares and bonds of one corporation it is deemed reasonable to estimate that the repurchases of all industrial securities, municipal bonds, and various property holdings other than railway securities have amounted to as much as $600,000,000. The net gold importations since the beginning of the war have been about $1,000,000.000 and the net amount of foreign loans publicly issued in this country, is $2,476,595,878.

The total of American securities repurchased, foreign loans and net gold imports as given above is $5,276,595,878, and the net trade balance of the United States from June 30, 1914 to February 28, 1917, on merchandise account was $5,762,539,803. The difference between these sums may be considered the amount by which the trade balance was reduced by invisible charges, such as ocean shipping charges, remittances to friends, etc.

Bond and Stock Market.

The bond market closed the month of March with a handsome demonstration over the offering of $60,000,000 of Pennsylvania general mortgage bonds bearing 4½ per cent. interest, payable in 1956. They were offered to the public at 97½ and immediately oversubscribed several times. This is the best recent showing on a railroad issue, but Pennsylvania bonds are a premier security. The New Haven road sold $45,000,000 one year, five per cent refunding notes, which went to the public on a 6 per cent. basis and cost the company something more, and the Erie sold $15,000,000, due in April, 1919. on a 5¾ basis; one of the most interesting issues of the month was $15,000,000 Central Argentine 10-year 6 per cent. convertible notes at 100 and interest. The Central Argentine is one of the most important railway systems of Argentina, serving the most populous section of the country.

One of the leading features of the month was the offering of the third Canadian war loan, of $150,000,000. which although not brought out in this market attracted some $25,000,000 or $30,000.000 of American subscriptions. The loan is reported largely oversubscribed. Another feature was the offering of $100,000,000 two-year 5½ per cent. secured notes of the French republic, which were all sold. The issue price was 99. These notes are convertible into 20-year 5½ per cent. bonds. and the holder also has an option of payment in francs at 5.75 to the dollar. If the United States enters the war and gives assistance in financing the allies the terms of future borrowings may not be so favorable to lenders.

The market for United States government bonds have held their own very well in view of the prospect for new issues.

The stock market has had a waiting attitude, with considerable recovery from the low level.

The City Bank in Santo Domingo.

The International Banking Corporation has acquired the established banking business of Santiago Michelena in Santo Domingo, with head offices at Santo Domingo City and several branches and agencies in other parts of the Island. This business has had a successful career of 27 years under Senor Michelena and he will remain in the management, associated with Mr. J. L. Manning, late Treasurer of the Insular Government of the Philippine Islands. The business will be taken over by the International Banking Corporation on April 2nd. Branches of the latter will be maintained at Santo Domingo, Macoris, Santo Pouerto and possibly other points. The Michelena Bank has been the depository for customs revenues under the arrangement between the governments of Santo Domingo and the United States, and the International Banking Corporation will succeed to it in this capacity. Previous to this acquisition the Corporation had three branches in Latin America, to wit, at Panama, Colon and Medellin (Columbia). The International Banking Corporation and its branches represent an extension of the service of this Bank, with which they are closely affiliated. The Bank of Hayti is also closely related to this system.

Wheat Prices in the Past.

Mr. C. B. Cole, of the Cole Milling Company, Chester, Illinois, whose business was established in 1839, writes to say that we have fallen into an error with many others in speaking of $2.00 per bushel as a record price for wheat. He says:

In March, 1867, we paid $3.75 per bushel for wheat and it sold in St. Louis for $3.85 per bushel. This was in depreciated paper money, but I have not the figures for price of gold at that time.

In March, 1877, wheat sold in St. Louis for $2.20. This was after resumption of gold payments.

In 1867, we sold flour at $19. per bbl. at the mill and the same flour retailed in Boston for $24. to $25. per bbl. So you see we are a good way from the top yet.

The records confirm Mr. Cole's figures. The lowest quotation of the gold dollar in paper currency in March, 1867, was $1.33⅝, and the highest $1.40⅜, and the mean between these would make about $2.73 per bushel, gold value. He is in error, however, about the date of the resumption of gold payments. The Treasury resumed on January 1, 1879. The price of gold in March, 1877, ranged from 104¼ to 105⅜.

1812 1917

Economic Conditions
Governmental Finance
United States Securities

NEW YORK, MAY, 1917.

America At War.

WHEN this publication was issued one month ago the country was waiting upon the meeting of Congress, April 2nd, and the message to be delivered by the President. The message was a worthy presentation of the relations of the United States to the great conflict in Europe, and of the reasons why this country could no longer remain neutral. The Congress responded with overwhelming majorities in both houses for the resolution declaring that a state of war existed between this country and the imperial German government. Diplomatic relations with Germany had been previously broken off, and since then Austria-Hungary and Turkey have deemed it necessary to align themselves with their ally by severing relations with the United States.

Throughout this country the action of the government at Washington has met with a response gratifying for the spirit of patriotism and unity exhibited. Whatever doubts and differences previously existed have been solved or subordinated to the national policy, and in every section of the country and among all classes of our people there is full purpose to support the government with all the means that are required to enable this country to bear an honorable and effective part. The people of this country were not easily convinced that duty called them to war. As a great democracy they were instinctively predisposed to peace and to friendly relations with all the world. They were far removed from the scene, they had no grievances to avenge, ambitions to gratify or selfish interests to serve; the rights of trade and travel which were involved were so little valued for their immediate importance that they actually tended to obscure the larger issues which were dependent upon them, to wit: our obligation to sustain the principles of public right as they have been established in the intercourse of nations, and our even more binding obligation not to assent to violations of our legal rights which were deliberately committed as part of a ruthless onslaught upon the liberties of unoffending nations and the peace of the world. Failure to assert our rights under the circumstances would mean indifference to, and even co-operation in, the attack upon others and the overthrow of public law. When the government took its final stand upon this ground the country showed a united front.

Nothing has been more significant or gratifying in connection with the stand taken by the United States than the expression of sympathy and approval which has come from Latin America. Cuba, Guatemala, Panama, Brazil and Bolivia have actually broken with Germany for the same reasons actuating the United States. Other countries are likely to do so, and there is abundant evidence that public opinion in Central and South America endorses the action of this country as well founded in international law, disinterested in purpose, and for the good of the world. It is pleasing to know that Latin America sympathetically draws closer to us.

Preparations For War.

This war has now lasted nearly three years and become the most awful tragedy of history. It overshadows all human affairs, and the supreme task of the time is to bring it to an end, if possible, under conditions which will give some assurance against the recurrence of a similar calamity in the future. In this task the United States is now joined, and until it is accomplished all energies which can be effectively directed to this end should be so devoted. The government rightfully has a first call upon all the resources of the country for this purpose, and the steps which it is taking indicate that it intends to organize its forces of men, equipment, materials and credit as rapidly as possible. There is every evidence of loyal co-operation. The owners of industrial works producing munitions and other war supplies are freely offering their establishments for government service, upon terms to be fixed by the latter; the railway companies have practically merged their properties into one organization for the purpose of giving the country the most efficient service possible;

the leaders of organized labor have pledged themselves not only to support the government but to work in harmonious industrial relations; the farmers with inspired energy have set about increasing the yield of foodstuffs; the bankers have tendered their services without charge in the flotation of loans, and there is manifested on all sides a willingness to do whatever task is assigned. When it comes to service in the ranks it is to be hoped that the supreme authority of democracy will be exercised, and that every man who is eligible under general rules of fitness will be subject to call, without regard to wealth, position or personal inclination. Let it not be said during the war or after it is over that money purchased immunity from the highest obligation of citizenship, as was said during and after the civil war.

It is important that there shall be a general understanding that while the war lasts it is to be the principal business of the country. There will be a saving of life and wealth if we enter upon it in this spirit. The strength of the government in the undertaking will depend upon the support which it receives from the people, and this support will be measured by the degree in which they concentrate their efforts to this purpose. The population of the United Kingdom by the last census, taken in 1911, was 45,221,615, and from this have been drawn approximately 6,000,000 men for the army and navy, or about 13 per cent. and yet a great volume of business goes on. In France as large a proportion has been taken, and doubtless in Germany. This has been accomplished by substituting women to a great extent in industry, by the development of greater efficiency, and, finally, by economies in consumption and the restriction of work in many lines.

When the war began a cry was raised in England of "Business as usual," but before long it was apparent that business could not go on as usual, and all efforts were turned to curtailing unnecessary expenditures, for the double purpose of subscribing for the war loans and releasing labor for absolutely necessary work. It was obviously out of place to keep men tending flower gardens while grain fields went untilled, and to have textile mills running on mere style changes when the labor supply was insufficient to make cloth for the army and the export trade.

Demands Upon Industry.

There are differences of opinion over how great the disturbance of industry in this country will be. It depends upon how long the war lasts and how deeply we will get into it. The differences of opinion are not over the probabilities of slack business or unemployment, but as to the extent of the readjustments which will be necessary, in order, first, that $7,000,000,000 of money and credit may be placed at the disposal of the government; and, second, that $7,000,000,000 worth of commodities and services may be supplied to the government and its allies. A cup cannot be filled more than full, and while some further development of efficiency is always possible, the labor supply is limited and already fully employed. Moreover, it will be reduced by enlistments, in the course of a year, perhaps, by a million to two million men. It would seem to be obvious on the face of things that the requirements of the governments can only be met by curtailing sales to private parties; and it would seem to be no less obvious that if this amount of purchasing power is taken from individuals they will be perforce obliged to curtail their purchases the sum of these influences tending to throw business into new channels.

It is true that so much of the government loans as is placed at the disposal of our allies may be considered as in part providing for a continuance of purchases, but the $4,000,000,000 estimated to be expended by the United States represents new requirements. It is probable also that the purchases of our Allies in this market will be limited only by our ability to provide the credits.

Furthermore, in thinking of industrial capacity in terms of value, it must be considered that prices are so abnormally high that values represent very much less in quantities than they usually do. Also it must be remembered that industrial capacity has increased very much in some industries in the last two years.

Increased Capacity

The steel industry has been greatly stimulated by the war. On December 31, 1914, the total capacity of the country for making steel billets and castings was 40,915,325 tons, and on December 31, 1916, according to the preliminary estimate of the American Iron and Steel Institute, it was 48,770,000, with 6,283,500 additional tons capacity building. The increase already in service on January 1st last was therefore 20 per cent., and when present construction is completed the increase will be 35 per cent. over the capacity of 1914.

In pig iron capacity the increase has not been so great, only about 4 per cent. completed to the close of 1916, but on January 1st 17 furnaces were under construction, with a capacity of 3,157,000 gross tons. Since then several more have been projected, in all providing for an increase of 15 to 18 per cent. over the capacity at the outbreak of the war. There had been a considerable surplus of pig iron capacity.

The total exports of steel from the United States in 1916 did not exceed 10 per cent. of the country's present steel-making capacity, and Judge Gary at the recent meeting of the American Iron and Steel Institute estimated our own government's probable requirements at about 5 per cent. of the country's capacity.

It appears safe to conclude, therefore, that the direct war demands are more than covered by the new capacity which has been brought in since the war began and is under construction.

There is, however, an enormous demand for steel for other than strictly war purposes, as for instance for ship plates and for sheets for tin plates, and for railway supplies. The fact is that the demand for steel and iron has been for the last year, and is now, far beyond the existing capacity for production, and the entrance of this country into the war has increased the requirements. There is no possibility of meeting the wants of Russia, France and the United States for railway equipment in the near future, and the same is true of ship plates. This class of business is entitled to preference, after war supplies, and tin plates for canning purposes are even more important. In the presence of demands like these there are many calls for steel which must give way, and this serves to illustrate the general policy of economy and postponement which will be required, and which in the very nature of the situation will work out.

The situation is not so congested in other leading lines. The lumber business has been hurt in its foreign trade by the war, and limited at home by the railway blockade. It will be stimulated by the wooden ship-building program, and need more labor. The textile industries have increased their capacity in the last two years approximately 5 per cent. which is said to be enough to cover the government's requirements in the next year. This does not tell the whole story, however, for government requirements must go ahead of all others when the request is made, and may be a larger percentage of the business while the orders are being filled. In shoes it is not thought the government orders will be more than 5 per cent. of present capacity.

Finally, in all estimates "capacity" is calculated upon machine equipment, but at the present time labor supply, transportation facilities, materials and other things which are dependent upon labor supply, are the factors actually limiting output.

Fear of Economy.

There is an evident fear among business men that the impulse to economy may suddenly contract the volume of business to such an extent as to disorganize industry, throw wage-earners into idleness, and create a general state of alarm and confusion which would seriously impair the ability of the country to deal with the great emergency which confronts it. They urge that it is better for each person to go ahead in his accustomed way and with his usual expenditures than to run the risk of disturbing the orderly movement of trade by encouraging a general change of pace. Upon analysis it is usually agreed that there will have to be a considerable shift in industry and a reduction of expenditures in some lines, but it is urged that this will come about gradually and automatically as government orders are given preference over private orders, by the pressure of high prices, by the influence of taxation and by the patriotic desire to participate in the loans; and it is urged that it is desirable to have the curtailment of private expenditures brought about in this manner, as public expenditures take its place, rather than by impulsive action which is not correlated with the government's expenditures.

Not Hoarding, But Economy.

It should be understood that what is wanted in the way of economy is not hoarding, which would bring about a cessation of industry, but an intelligent adaptation of private policies to the public needs. There is not going to be less work to be done in this country. There is more work than ever in sight to be done. Individuals must turn a large part of their incomes over to the government, not for hoarding, but for it to expend among the industries. The expenditures will merely be shifted to new channels. This is the main fact to be kept in mind.

We do not think the pressure of high prices and high taxation should be the only influences to deter an individual from unnecessary expenditures. One of the most difficult tasks they have had in England has been that of convincing people that because they could afford to buy something was no justification for buying it, especially in war time. If the expenditure is unnecessary and the article or service requires labor which is needed elsewhere, the expenditure ought not to be made. The rule of course must be applied with common sense, and along with it should go an organized effort to utilize whatever labor is released in industries where it is needed. Our problem is to so organize our forces that not only will there be no unemployment but that every worker will be employed in the manner most serviceable to the country.

The Government Loans.

The government loans authorized since the declaration of war was made, and additional to authorizations aggregating $772,000,000, at the regular session of Congress, consist of a $5,000,000,000 bond issue, Treasury certificates up to but not exceeding $2,000,000,000 outstanding at any one time, and a bond issue of $63,945,460, or so much thereof as may be necessary to redeem the 3 per cent. loan now outstanding and coming due in 1918. Both issues of bonds will be offered upon terms as to maturity, rate of interest, conversion, redemption, and other details, to be fixed by the

Secretary of the Treasury, except that the interest rate must not exceed 3½ per cent., they must not be issued at less than par, and they must be first offered for popular subscription.

The Treasury certificates will be issued under terms to be fixed by the Secretary of the Treasury, except that they must not bear more than 3½ per cent. interest, be sold at less than par or run more than one year.

Out of the proceeds of the $5,000,000,000 bond issue the Secretary of the Treasury is authorized to loan $3,000,000,000 to the foreign governments which are at war with enemies of the United States, taking their obligations bearing the same rate of interest and containing the same essential terms as this government's own issue.

The general financial policy thus provided for is commended. It is desirable that the Treasury shall have ample authority to issue short paper in anticipation of taxes and to take care of its needs pending the permanent financing by means of bonds. The provision for loans to allies has unanimous approval; it is the only means by which this country can bear an important part in this summer's campaign. The remaining $2,000,000,000 of bonds and the $2,000,000,000 of certificates to be redeemed out of the revenues are intended to cover our own extraordinary outlays on account of the war for one year.

Although the interest rate of 3½ per cent. will seem low to many people, it is a return free of taxation, and if it was higher it would seriously affect the capital value of other securities and perhaps disturb savings bank deposits. It is not desirable that people shall attempt to shift other investments on a large scale, as such a course would unsettle values without making more capital available.

Magnitude of the Offering.

The aggregate of these loans, as compared with all previous financial transactions in this country, is an enormous sum to be offered to the public for subscription within one year.

Prof. Roland P. Falkner has made an analysis of the income tax returns of 1913, by which he calculates backward from the amount of super taxes collected under the several classifications, and from the collections under the normal tax, and reaches the well supported conclusion that the collections represented incomes aggregating $2,862,021,776 for ten months, which would be at the rate of $3,434,426,131 for a full year. This was approximately the total of personal incomes above the exemption limits in that year.*

The total of publicly announced domestic capital issues of all kinds, and of foreign loans, in the United States in the year 1916 was reported by the New York Journal of Commerce at $3,567,499,900, and was never greater than this in one year.

*Publications of American Statistical Association, June, 1916.

The funded debt of all the railways of the United States on June 30, 1916, was $9,279,911,625.

The increase in the wealth of the United States in the eight years from 1904 to 1912 was $80,000,000,000, or an average of $10,000,000,000 per year, according to the census bureau, but this included the enhancement of land values. Outside of all property classed as real estate the increase of wealth from 1904 to 1912 averaged $4,037,619,654 per year. If one-third of the gain in real estate values is attributed to improvements, the total accumulations of wealth during these eight years averaged about $6,000,000,000 per year. No doubt the average was above this for the latter years of the period and has been much above it during the last two years, but these figures give an indication of what it means to undertake to raise $7,000,000,000 by subscription and have it paid into the Treasury within a year.

It is true that in comparison with the feats of the countries at war, wealth and population considered, it does not look like such a formidable task. The British people subscribed $5,000,000,000 to a war loan in February, which will be all paid up in May, and have taken several hundred million dollars worth of Treasury bills since. The German government offered its fifth war loan last October, to which subscriptions amounted to $2,535,200,000, with final payments in February. Since then the sixth loan has been closed with subscriptions reported at over $3,000,000,000. And these accomplishments in England and Germany are after over two years of war. It must be recognized, however, that the war is present to the people of England and Germany in a much more personal and vital sense than it is to the people of the United States. There is no reason to doubt that the people of this country under similar circumstances would do as well, but the question is, do they understand the widespread effort that is required to raise $7,000,000,000? A majority of our people are not accustomed to subscribe to public offerings of securities. Even among those accustomed to save, local real estate investments and local bank deposits are the most familiar means of employing their funds. They are likely to think that government bonds are for rich people only.

Source of Payments.

There are four methods by which a subscriber may possibly provide the means of payment. The first is that of the person who has been hoarding cash and gives it up in exchange for a bond. This benefits the situation by bringing idle money into use, but the amount of such payments will be insignificant. The second method is by checking against a bank balance. The mere transfer of a bank

credit from one commercial account to another, or even from one commercial bank to another, does not necessarily disturb the banking situation, although an extensive redistribution of deposits occasions more or less contraction of loans. Funds checked over to the Treasury and promptly disbursed in payment of government purchases will be redistributed to the commercial banks, but deposits drawn from savings banks will not find their way back so readily. Withdrawals of important amounts from savings banks will probably compel them to sell securities, which will compete with the government's offerings. A third method is for the intending subscriber to sell securities, which, while enabling him to buy, depletes the market of buying power in the same manner as when savings banks are forced to sell. The fourth method is by borrowing from a bank, which increases the total of bank loans and deposits, and when resorted to largely inflates the whole credit situation, compels the banks to carry larger reserves and has the same effect upon prices and general business as an inflation of the currency. Subscriptions by banks have the same effect as subscriptions by means of bank loans, but are more objectionable, because subscribers who borrow from banks will feel inclined to reduce their borrowings by economies and by avoiding other investments, which will tend to bring the situation back to normal.

It will be seen that the chief sources of supply are the unemployed deposits in banks and the ability of the banks to create new credit. There is a stream of new capital always accruing from savings and profits and constantly passing into fixed investments, and this stream must be diverted into the government treasury. This fund of accumulations is the only source of new capital, but it is possible to anticipate the accumulations to some extent by the use of bank credit, subject to the disturbance and risks which attend every unusual resort to credit.

How Inflation Occurs.

If the government loans are taken up out of current accumulations of new capital and without increasing bank loans, the business activities of the country will be directed and restricted to the employment of this capital for the government's purposes, but if the country undertakes to use accumulations for business expansion as usual, and to provide the government with funds by means of bank credit, there will be an attempt to employ purchasing power so much in excess of the supply of labor and materials that these will be forced rapidly higher. It is not that there is a conscious depreciation of the medium of payments, but that the enormous demand, supplied with additional purchasing power, and acting upon a limited supply of the things wanted, forces prices higher. When all the forces of production are already in full action, more cannot be done merely by supplying additional credit. It is a question of more men, more equipment and more materials. An attempt to use more purchasing power, whether it be credit or gold itself, exhausts itself in higher wages and prices all around.

The foregoing statement must be qualified, however, by saying that under the continued pressure and stimulus of such extraordinary conditions there is a constant development of efficiency. Rising wages in the town industries draw men from the farms until the food supply is threatened, and this prompts extraordinary efforts to help out the farmers. The railways have taken extraordinary steps to obtain higher efficiency, and there are unusual inducements to install labor-saving methods everywhere.

Undoubtedly there will have to be a large amount of at least temporary borrowing in order to handle the government loans, but it should be impressed upon the public at the outset of this war-borrowing, which will be a steady thing as long as the war lasts, that resort to the banks by either the government or the public should be for temporary needs only. Such loans should be paid up as quickly as possible out of income, to clear the way for future requirements.

Payments Must be Gradual.

Since subscriptions should be paid so far as possible out of income, and since practically all payments must be made by shifting bank funds, it is of the greatest importance that the government shall co-ordinate its receipts and disbursements so as to make them as nearly simultaneous as possible, thus causing the smallest possible movement of money and the slightest disturbance of general banking conditions. To accomplish this the receipts must be left in the banks from which they are to be drawn, with the slightest practicable degree of concentration, until the time for disbursement is reached. It is the understanding that the bonds authorized will be offered from time to time in installments, but no official statement has been made as to the amount of the first installment.

In the other countries at war no public offerings of new securities for private enterprises are permitted, except upon approval of the government, and approval is strictly confined to enterprises of a public character and serviceable to the country at this time. No official restraint of this kind has been thought necessary as yet here, but the state of the market will probably have much the same effect. The government will have the investment field largely to itself, at least until it is developed how readily the country is prepared to absorb its offerings. That the country can absorb

them is beyond question, but the magnitude of the task must be understood. It cannot be done through the subscriptions of only those who desire a 3½ per cent. investment, or by the subscriptions of only rich people. The figures given above indicate that if every dollar expended in the country upon construction work and for equipment and improvements of every kind, within one year, ten years ago, had been gathered into the Treasury, it would not have equalled the sum now asked. Such a sum can only be raised by an organized effort which reaches out to every town and hamlet of the country, and brings home to every corporation, association, business firm and individual the necessity of participating. This is the method by which the loans have been raised in other countries.

Taxation.

The Committees of Congress are at work upon a scheme of war taxation to supplement the revenues provided for at the regular session. It is generally understood that the plan is to raise by taxes a sum equal to approximately forty or fifty per cent. of the direct war expenditures of this government, the loans to the Allies being covered by their own obligations. The sum to be raised is so great that the differences of opinion over methods have been to some extent minimized. Everybody recognizes that taxation must be heavy and most people recognize that a large amount must be raised by loans. There are suggestions for the practically complete confiscation of large incomes, but a portion of these incomes must be had to help provide the huge loans to foreign governments. It would be very unfair for this government to tax its people to raise money for it to lend at interest to other countries.

The committees have not yet indicated their conclusions, but the newspaper reports doubtless give a fair account of what is contemplated. The income taxes will be raised, particularly the higher super taxes, and the limit of exemption will be lowered. The excess profits tax will be increased upon a graduated scale, but will probably not be as high as first rumored. These profits also must be relied upon for bond subscriptions. Moreover, much of what appears by the books to be profits cannot be taken from going concerns without crippling them. The profits of the last two years have been going largely to increased capacity, and are still needed for that purpose and for additional working capital under the present volume of business. Moreover the profits of extraordinary times like these must be averaged down with the lean years that usually follow before a fair calculation of actual profits can be made. Finally, it is important to the country that the industries shall be strong after the war to meet the lean years by going out after world trade with ability to grant liberal credits.

The stamp taxes of the first war revenue act will probably be reimposed, and heavy taxes added to liquors and tobacco. A searching increase all along the line of luxuries is to be expected, and an increase of postal rates is talked of. It is given out that no levy upon tea, coffee or cocoa will be made, or increase upon sugar, presumably upon the theory that the rise of living costs is already so high that the cost of necessaries should not be increased by taxation. From this decision it would appear that with the exception of the present tax upon sugar, which is of very long standing, no attempt will be made even in this emergency, to raise revenues from what are usually called necessaries.

Loans vs. Taxation.

An extensive agitation has been carried on in favor of taxation as against loans, but in view of the fact that so large an amount of taxation has been conceded to be proper, the discussion appears rather academic. There are good reasons for raising a large share of the expenses of the war by taxation, but there are quite as good reasons for providing that those who come afterward shall bear a large share. The truth is that nothing can be done now that will prevent those who come afterward from being losers on account of these expenditures, and if unwise encroachment is made upon the capital fund now the loss to the later generations will be greater than if we bequeath them a greater debt but also a greater fund of capital.

It is urged that the raising of money by loans creates inflation, which is avoided if the funds are provided by taxation. But the act of converting present income into a government loan no more involves inflation than the taking of income by taxation. There will be inflation if there is increased borrowing from the banks either to subscribe for the loans or to expand business in view of the war's demands upon industry. It will go on in either case unless the incentive to enterprise is completely removed by the taxation, and it may be questioned whether this is not too big a price to pay for exemption.

It is said that the government lays its hand upon a person and calls him to the colors, therefore it may properly lay its hand upon property. Its right to take property for its use is not disputed, but the comparison is not a good one. If we have universal service, which is the just system, the government will lay its hand on rich and poor alike; they will be equal in their obligations to give personal service. When it comes to property, if one man by resolution, self denial and the other qualities which win success has acquired property and is able to extend aid to the government, while another has failed to acquire property and is not in position to give such aid, does the argument maintain that there is equal or just treatment in taking without limit from the former with no purpose of reimbursement? Furthermore, is it for the general advantage?

Savers and Spenders.

The accumulation of capital is for the advantage of the entire community; the progress of society is dependent upon it. The benefits of living in a community where savings and profits are being constantly accumulated and invested in productive equipment, thus multiplying the output of comforts, extend to all, the non-savers as well as the savers. A majority of people are not accumulators, and this is just as true of people of ample incomes as of people of small incomes. Statisticians affirm that as large a percentage of people with small earnings are thrifty as of people with large earnings, for thrift is not evidenced by what is earned but by what is saved. Thrift is a trait of character, but one which may be cultivated and developed, and it is for the interest of the State that it shall be cultivated and developed.

The war involves the country in great expenditures, and it levies certain taxes upon consumption which reach practically all people, but under our system of exempting nearly all necessaries these taxes are very few. There are other taxes upon articles of luxury quite commonly indulged in, such as tobacco, which in the aggregate bring in a large revenue, and, finally, there are the progressive taxes upon thrift and success. These taxes, certain persons, who doubtless think they are working in the interest of the down-trodden masses, want to make confiscatory of all large incomes. Their desire to do it, however, is not born of the war; they were wanting to do it before the war and will want to do it after the war. Their theories of improving society are directed to leveling it down, to dividing and eating up what there is, rather than to building up and using what there is in the most effective manner to increase the dividends of the future.

Whatever is raised by taxation during the war is gone forever. That part of the taxation which is taken from the spenders would have gone anyway; that part which is taken from the savers is a permanent loss to the community. That part which is borrowed from them, however, will be collected by taxation later on and restored, not simply to them but to the capital fund of the community. They themselves will pay a portion of the taxes for this purpose, but the spenders will likewise pay a part, and this enforced saving will be the only saving the latter will ever do. There will be a recovery of so much of the capital cost of the war, and the spenders themselves in the long run will gain by it.

Taxation on Expenditures.

The present system of taxation is based upon income and savings. It would be more scientific if based upon expenditures for personal and unproductive purposes, and particularly upon expenditures for luxuries, vanity and display. The capital which a rich man puts to making shoes or clothes, or implements of production, or facilities of transportation, or to the service of the public in other ways, is not devoted to himself; it is devoted to the public as truly as though the public owned it. If the public owned it, there would be the same necessity as now to accumulate a surplus for carrying on the development and enlargement of the service, which is the end to which all surplus capital is devoted now.

A Typical Investor.

Mr. Henry Ford is one of the most famous rich men of the country. He has made his wealth not by making other men poorer but by supplying them with a utility which in their opinion is worth more to them than they give for it. Mr. Ford has long since passed the point where additions to his income contribute anything to his welfare or are in any real sense devoted to him or withdrawn from the community fund. For years past all additions to his wealth have been devoted to the public, either by gift or by investment for the development of industry, the latter being, dollar for dollar, the most serviceable. Athough the title of new properties may be in him, the properties are not devoted to him, for their products go to others and the profits are reinvested to make more products which likewise go to the public. If he deeded all the properties besides what are necessary for his own support to the State, the State could do no more with them than he is doing and probably could not manage them nearly so well.

He is developing a farm tractor which, if a success, will be a great implement of service to the public, and all the profits that come from it will in the natural order of things be put into the development of some other utility. And this is not the story of Henry Ford alone; it is the story of the development of industry and of the progress of society from the beginning. The development which preceded Mr. Ford and the business men of this time served as a foundation for them, and what they are doing will be the basis for those who follow. The benefits that are absorbed by ownership are infinitesimal compared with the benefits that are widely distributed as the development goes on, but the socialist propaganda is based upon the assumption that nobody benefits from a rich man's wealth but himself!

The taxation which the government levies upon Mr. Ford will not touch any of his income now devoted to himself; it will not diminish in any degree the expenditures upon himself. The proceeds will come out of that portion of his income which is destined to investments, or in other words, from that portion which is devoted to public purposes. It subtracts just so much from the capital fund, which is as truly a social fund as though the title to it was in the State. It may be called for in time of war for defense of the State, but it is in the common interest that it shall be replenished at least in part after the war is over.

If such taxes were made permanent the meaning would be that the government in taking over

the incomes of men like Mr. Ford, who have demonstrated their ability in certain lines, was assuming to have, in its politically selected officials, greater ability for handling this capital efficiently than the men whose genius created it.

The Gardens and Crops.

The country is well aroused to the importance of increasing the yield of food stuffs this year. It may be doubted whether there has ever been another such an example of prompt, energetic co-operative action by great numbers of people over so extensive a territory, as has been seen in this country since the government's April crop report was issued. This Bank has sought information on the subject, and acknowledges the receipt of a vast number of letters, covering every part of the country, showing an alert interest everywhere, and that effective measures are being adopted to deal with the emergency. Whether the reports are from Maine, Oregon, Texas, Michigan, Virginia or elsewhere they are all alike in tenor. They furnish remarkable evidence of the homeogenity and initiative of our people. The reports are so voluminous and at the same time so similar that it is both impossible and unnecessary to go into them in detail. It is sufficient to say that the public authorities from the national government down, including the public school officials and teachers, and all commercial bodies and social organizations, the press and all agencies of publicity, have been active both in agitation and in systematic work. The bankers have taken a conspicuous part everywhere, and are offering funds liberally.

It must not be assumed, however, on the strength of this activity, that a great increase of production is assured. The farmers do about all they can at all times, and at best the acreage of field crops can be but slightly increased. Little can be expected from elaborate plans to bring large areas of new land under cultivation. There is not time enough for such schemes to be worked out. The most practical work will be done by aiding the farmer who already has a going business. The best organization is one which centers in the county seat town, and covers every part of the county, so that it reaches every farm and obtains specific information as to the help that can be used. A fund is raised, tractors are bought, seed is imported, credit is provided and labor is promised at the critical seasons. As a rule, what the farmer wants most is labor, and the towns can find a very considerable amount of it when they set out to do so. School boys will be available in great numbers, clerks will take their vacations at farm work, and business men will loan employes. In some instances, railway section men will be loaned, and railway officials everywhere are taking a lively interest in the movement.

Garden Cultivation.

Garden cultivation is on a great scale, and will be a more important factor than ever in the food supply this year. The yield of an acre in garden crops under intensive cultivation can be very large, and the labor for it can be had. The schools are doing fine work organizing the children for this task, and prize offerings are held up to stimulate the interest. One plan of school work is to organize the children in groups of from four to six to work plots of ground together, under supervision. This arrangement will allow the children to have some vacation time, and provides with greater certainty that the plots will be cared for. In some cases the city government has purchased a plow, and does the plowing free. One of the most practical measures of promoting the work is that adopted by employers in arranging for garden plots for their employes, and for plowing, fertilizer and competent supervision.

It is of the highest importance that expert advice and supervision be provided for this garden work. Unless this is done, much of the effort will end in disappointment and loss. There is more in this garden movement, and in the plan to aid agriculture generally, than simply an increase of this year's yield. The interest is aroused now, and there is a chance to inculcate a love of the soil and of partnership with Nature which will be of lasting good to thousands of young people in mind and body, not to speak of financial benefits. It is good that they do this now as a service to the country in an emergency, and it will be good for the country and for themselves if they find permanent interest and pleasure in it. Let no pains be spared, therefore, to make the gardens a success, for the influence upon the cultivators as well as for the value of the crop.

Outlook for the Crops.

It is too early yet to add much to what is already known of the crop outlook. Kansas is the most important winter wheat State, and the Kansas department of agriculture estimates that 55 per cent. of the acreage sowed will be plowed up. Nebraska is no better, and the plant everywhere came through the winter in poor condition, owing to a lack of snow-covering and of moisture. During April, however, there have been splendid rains all over the wheat country, putting an end to fears of further deterioration and reviving many fields, but there is no expectation that the crop will equal last year's. The spring has been backward and vegetation is delayed but generally the soil is in good condition now for the planting. The seeding of wheat, oats and barley is well under way. On the whole the acreage of these crops will be increased, but reports indicate that the increase of wheat is less than of the other grains.

The great opportunity for gain is in corn, which may be planted up to the first week in June, and no doubt a substantial increase in the acreage will be made. The world doesn't know how to use corn as an article of diet as it does wheat, and it is not easy to persuade people to make substitutions, but there will be no starvation if corn is plenty. If it is well matured it will keep in store, and there is no danger of growing too much corn. All energies now should be centered on getting a big corn crop, although it may be well to repeat a warning that has been sounded against plowing up so much pasture that the future supply of cattle will be affected. The meat supply must be looked after, as well as the grain supply.

Notwithstanding the high price of potatoes, or perhaps because of the high price of seed, reports from the chief potato-growing districts do not indicate increased field plantings, but the increase in gardens is very large, and if the season is favorable there should be a good supply.

The fruit crop is promising and there is a prospect that household canning operations, both of fruit and vegetables, will be limited only by the supply of cans and jars. Although there is anxiety on this score we are assured that there will be a very large production of both cans and jars, and believe that plans for using them may safely be made.

The South will make a much better showing in food crops than ever before, as a result of the splendid patriotic campaign which has been carried on in every locality, and in which we are glad to say the local bankers have been very effective. For a time there was a prospect for a large increase in the cotton acreage, prompted by the prevailing prices, but as a result of the efforts to grow more food the cotton acreage probably will be but little larger than last year. Some sections of the South have lost many farm laborers, who have been attracted elsewhere by high wages in the industries, and this will have some effect upon production.

The General Situation.

The situation is much better, in that deterioration of winter wheat has been stopped and soil conditions are now very favorable on all the spring plantings. There must be, however, no relaxation of efforts to make a big crop of everything, bearing in mind that an average crop will not suffice, and that nobody can tell until the crop is harvested how much margin of safety there will be. The wage and price advances in this country during the past month, greater even than in any preceding month, are an impressive reminder that the whole industrial and business situation is based upon the food supply. We don't worry about the food supply ordinarily, because when the whole world is at work and production is normal, a scarcity in one country is made up by the surplus of another, and by the reserves existing everywhere, but now not only are we dependent upon ourselves alone, but more than ever we are under obligations to supply others. This is no time for easy optimism and neglect; it is a time when every possible precaution against new calamities should be taken.

No Immediate Scarcity.

It was probably an unavoidable incident of the campaign for greater food production that many persons should become alarmed and proceed to lay in unusual stocks of food supplies, but it was an unfortunate and unnecessary movement. The crisis has been passed on old crop supplies; new vegetables from the South are now coming into market in large quantities and the supply will steadily increase. In two months reapers will be running, and once started in Texas they will not stop until the last Canadian field is harvested in the fall. Besides the flour in homes and stores there is still an ample supply of wheat in this country to cover the time until new wheat is available. Furthermore, during the month the Canadian government has removed its customs duty against American wheat, which action, by the terms of our own tariff law, removes our duty against Canadian wheat, and there is yet a large amount of wheat in the Canadian Northwest. Finally, the British government during the month has changed over important holdings in this country from May and June deliveries to later months, thus releasing wheat to the market. Its agents have announced that the Allies have enough wheat for present requirements.

The recent jump in prices has been directly due to the hoarding demand, which is not only foolish but unpatriotic. The housekeepers in order to provide for their wants several months ahead called upon the grocers, the grocers called upon the millers, and the millers went into the market and bid against each other until No. 2 red winter wheat for immediate grinding sold in Kansas City on the 28th inst. at $3.26 per bushel, while all later deliveries were selling much lower. If the hoarders had provided for their future wants by buying flour for future delivery they would have protected themselves at lower cost, and without the risk of having the flour spoil on their hands.

Saving Food.

Not everybody is so situated as to be able to be in a small way a food producer, but everybody can be economical in the use of food, and it is possible that the savings upon what goes to the garbage cans and what is worse than wastefully consumed might equal the results of this campaign to increase production.

There is a conflict of expert opinion over the proposal to make a coarser grade of flour. Its opponents affirm that the portions of the grain which it is proposed to include are in fact unassimilible by the human stomach, and that if

eaten by humans will be wasted, whereas they make the best of food for animals. The scientists ought to be able to settle this question.

Price Fixing.

The proposals for emergency legislation proposed by the Secretary of Agriculture include sweeping authority to fix prices upon food products, and the first effect is to raise a question among producers as to whether they want to make extraordinary efforts to increase production with such an unknown contingency hanging over them. One of the bad features of the situation for several months has been the marketing of unfinished cattle because the owners have not cared to run the risk of putting more high-priced feed into them. The probability that prices will be arbitrarily fixed in the interest of consumers increases the indisposition to take risks. Of course, it is said that the authority will be exercised only to restrain the avarice of middlemen, but the farmer has a pretty definite idea that if there is interference at one place in the chain of delivery the effect will be felt all along the line. If the price of flour is fixed the price of wheat will be practically fixed.

The whole scheme of government regulation of prices is of very dubious utility, for the simple reason that no authority can be created with wisdom enough to exercise the power with any certainty of beneficial results. Every act of such arbitrary authority has a multitude of unforseen consequences. The play and interaction of all the motives and considerations that relate prices to each other are beyond calculation. It requires a very exceptional situation, where the supply is practically fixed and prices have no reaction upon production, to justify price-fixing.

If any degree of price-fixing is justified at the present time it is the fixing of a minimum price to guarantee the producer against an improbable fall in the market. There is reason in this at a time when the public interests require that extraordinary precautions be taken against a shortage. The possible difference between a big harvest and a short harvest is so great that it is impossible to make a close forecast of what the harvest will be, and the only rational policy now is to make it as big as possible. We cannot take the chances on skinning through by grace of a good yield; we must be safe against a poor yield. But the individual farmer, who is asked to make extraordinary efforts to insure the public welfare, must limit his risks; he will do more on a guaranty that the price will not fall below a certain figure than he can afford to do without a guaranty, and if by reason of this encouragement the crop is made so large that the market falls below the guaranty, the public interest has been served and the public can afford to pay the cost. The principle involved in this is totally different from that involved in arbitrary price-fixing, and yet the chief objection to fixing minimum prices is that it is almost impossible to carry the proposal without including some provision for maximum prices. It would have been well worth while to have fixed minimum prices for wheat while there was yet time to increase the wheat sowings, but that time has now passed.

General Business Conditions.

A change of some significance, although not of large proportions, has been observable in the industrial situation in the last two or three weeks. The further rise of prices and other factors in the situation are reducing business in some lines while in others there is greater pressure than ever. Building operations have held up remarkably well under the advances in steel and other materials, but a great many building plans are being laid aside until costs are lower. The Financial and Commercial Chronicle reports that in 169 cities the contracts entered into in the first quarter of 1917, contemplated an expenditure of approximately $203,977,094, against $202,538,195 in the same months of 1916. Although this shows a slight gain, if allowance is made for higher prices there is an actual decline in work done.

The carpet branch of the textile industry shows the most marked effect of high prices upon goods which may be classed as luxuries. An auction sale in the last week of April, in this city, by one of the largest mill companies was considered disappointing, although the sales in six days amounted to $3,970,000. The prices were said to be above those paid by jobbers last fall, but not up to the level required upon the present basis of costs, and the company announced that a curtailment of 50 per cent. in production would be made.

In textiles generally merchants are said to be buying cautiously, confining themselves to fewer lines and avoiding the novelties and extremes of style. It is between seasons in many lines with manufacturers, the goods for the fall and winter retail trade having been sold, and business has hardly begun on next spring's deliveries. It is the effect of the new wage scales and present prices for raw materials upon retail prices in the spring of 1918 that gives concern. At present the manufacturers are more anxious about their labor supply than anything else, advances in other industries compelling them to follow in order to hold their help. The labor problem is expected to become more acute as spring advances. Stocks of merchandise in mill hands are very low. Government buying is an important factor at this time. The shoe business reports some signs of the impulse to economy. Hides are about 100 per cent. above normal prices, and a standard shoe which before the war sold at wholesale at $2.25 is now $2.90, and will soon be at $3.25. The latter price will be the basis for retail selling in the spring of 1917.

The fourth advance in wages in the iron and steel industry goes into effect May 1st, and as these are cumulative the aggregate is about 45 per cent. upon wages before the war. The wages of coal miners in both anthracite and bituminous fields have been increased 15 to 20 per cent. The miners are all working under agreements made a year ago and extending over several years, and the conference upon the subject reflected credit upon all concerned. The miners did not threaten to strike; on the contrary, they admitted that they were bound by their agreements and declared their intention to live up to them, but in view of the great rise in living costs asked that another wage advance be granted.

The railway traffic situation is better, but still bad and occasioning much anxiety. A vast amount of heavy freight is held up, and many mills and furnaces are operating below capacity on account of the congestion. Navigation on the lakes is now open, and this will create a great amount of new traffic at the lake ports which the roads are apparently not in position to handle.

The March figures of our exports and imports are surprisingly good in view of the activity of the submarines. Exports at $551,278,328, have never been greater in any one month, except in January, 1917, and imports made a new record at $270,484,489, the merchandise balance was $280,793,889.

Bank clearings are running 35 to 40 per cent. ahead of a year ago. The high prices are a factor in both clearings and foreign trade totals, but they do not account for all of the increase in either case. Bradstreets' monthly average of commodity prices shows an increase of about 24 per cent. over a year ago.

Railroad gross earnings in February made an increase of about 1 per cent. over those of February, 1916, but on account of higher operating costs, net revenues declined 26.59 per cent. The Interstate Commerce Commission has given the roads permission to file tentative freight rate schedules providing for an advance of 15 per cent. to go into effect June 1st, the case to be heard in the meantime.

The Future of Business.

The uncertainty which has existed ever since the war began as to the conditions that would prevail after the war is clearing away, and confidence is becoming established that there will be plenty of business not only while the war lasts but for a term of years thereafter. The amount of work which is piling up for the principal industries, and particularly the iron and steel industry, gives assurance of this. There is a great volume of business booked into 1918 and bookings in 1919 are not infrequent. The shipbuilding industry is certainly good for five years of activity, and steel men believe that railroad equipment and construction, and other important demands will not be satisfied in much less time. The lumber industry looks forward for several years of assumed activity, and if we are alert to our investment opportunities abroad we can create a large outlet for many lines of goods. Our developing relations with Russia, China and South America are very favorable to trade expansion if we are prepared to give the financial assistance they will need and are worthy of.

The Money Markets.

Monetary conditions show but slight effects as yet of the great financial transactions which are pending, and this truthfully reflects the confidence that they will be handled without serious interference with ordinary banking accommodations. The first borrowing by the government this year was on April 1st, of $50,000,000 in loan certificates maturing June 30th, taken by the Federal reserve banks at 2 per cent. On April 24th the Secretary of the Treasury offered $200,000,000 certificates of indebtedness bearing 3 per cent. interest and maturing June 30th. The offering was informal, and not general, through the Federal reserve banks, but the amount was over subscribed, and the Secretary decided to increase the issue to $250,000,000. Out of the proceeds he proceeded immediately to make a short loan of $200,000,000 to the British government, which was used in part to pay off loans in New York. Notwithstanding this shift there was an interesting reaction on New York balances as a result of interior subscriptions to the loans, $17,000,000 being transferred by wire from correspondent banks here to the Federal reserve banks of other districts, to make good the impairment of reserves caused. This indicates that although the interior banks are strong in reserves, the assistance which they give to government loans will involve considerable reductions in their balances in this city. The division of the $200,000,000 loan between New York and the rest of the country has not been made known, but it is assumed that more than one-half of it was taken here. The $17,000,000 of telegraphic transfers did not measure the full reaction from the interior upon New York, as the heavy balances in favor of the Federal Reserve Bank, of this city, at the clearing house on subsequent days have shown.

Call rates for money went up to 4 per cent. on the 24th, when payments for the certificates were being made, but dropped back to 2½ the next day. Time money has been slightly firmer, and is quoted at 4½ to 4¾, for six months. With the prospective demands on New York in connection with the forthcoming government loans the market is likely to remain firm.

The surplus reserves of the New York Clear-

ing House banks on April 28th were $111,-642,220, a reduction for the week of $9,256,980. Since March 1st the Federal Reserve Bank of New York has lost approximately $140,000,000 to the other reserve banks through the gold settlement fund.

The abstract of national bank statements under the Comptroller's call of March 5, 1917, shows that the loans of all national banks were up $372,236,000 from December 27, 1916, and $1,222,851,000 from March 7, 1916. Demand deposits were up $140,808,000 since December and $1,067,884,000 in the year. The excess reserves of the system are calculated at $1,109,-065,000, as compared with $995,184,000 at the December date. Bank balances in New York were $1,227,581,000, as compared with $1,098,-629,000 in December and $1,150,425,000 in March of last year, but individual deposits in New York were $1,495,683,000 against $1,630,-881,000 in December and $1,319,220,000 in March last year. The reserve percentages of the three classes of banks on December 27, 1916, and March 5, 1917, were as follows:

	March 5 1917	December 27 1916
Central reserve city banks	21.31	21.22
Reserve city banks	24.48	23.47
Country banks	28.36	27.47

Federal Reserve Amendments.

The amendments which were proposed to the Federal reserve act at the last session of Congress, with a view to concentrating gold reserves in the Federal reserve banks, with slight modifications, have been embodied in a new bill, introduced at the present session and now recommended for passage by the Senate Committee on Finance. Under its provisions member banks in central reserve cities will be required to keep 13 per cent., reserve city banks 10 per cent., and country banks 6 per cent. of their demand deposits in the reserve banks, and all banks must keep at least 4 per cent. of their demand deposits in their possession, but this 4 per cent. may consist of any kind of lawful money, including reserve notes. If these and the collateral amendments authorizing the direct exchange of Federal reserve notes for gold are adopted, the gold holdings of the reserve banks will be largely augmented and the capacity of banks to grant re-discounts will be correspondingly increased. This is very desirable in view of the demands which may fall upon the reserve system in financing the war.

By way of offering further encouragement to state banks and trust companies to enter the system an amendment is offered allowing them to withdraw from the system upon easy terms if they should desire to do so.

As a result of the government financing the demands upon all banks for accommodations are bound to be larger, and the re-discounting privilege will be a greater inducement to the state banks and trust companies than heretofore. Incidentally, also, the earnings of the Federal Reserve banks will increase, back dividends will be cleaned up, and future dividends will be put on an assured basis.

Influence of Government Loans.

The banking situation now is dominated by the influence of the forthcoming loans, and will be greatly under that influence while the war lasts. It is evident that whether the loans are taken up by the public out of income or by borrowing from the banks, the payments to the Treasury and the disbursements of the Treasury back to the public must be handled by the banks. If there is heavy borrowing by the public for this purpose it will stiffen the money market, raise deposits to the limit of reserves, and ultimately send the member banks to the Federal reserve system for rediscounts. There is no reason to anticipate, however, any conditions under which credit will be difficult to obtain for the regular business operations of the country. If there was any doubt about this the fact that the Bank of England during the last month has reduced its discount rate to 5 per cent. after nearly 3 years and 9 months of war should dispose of it. From August 8, 1914, to July 13, 1916, the Bank of England rate stood at 5 per cent. At the latter date it was raised to 6 on account of tight money in New York, on January 13, 1917, it was dropped to 5½ and following the entry of the United States into the war dropped back to 5 per cent.

Gold importations have dropped and there is no immediate reason for their resumption, now that credits for the allies are to be supplied by other means. There is no doubt, however, that they will be resumed from time to time, as additional banking accommodations are required and reserves need to be increased. It is not likely, that gold importations will be again on the large scale of the past year. They would promote the very tendencies which it is very desirable to avoid.

The Bond Market.

The bond and stock markets during April have been very quiet under the influence of the pending government loans. The most important issue during the month was $25,000,000 of 4 per cent. bonds of the State of New York, which sold at 105⅝ and interest, a very good price under the conditions. The leading railroad issues was $10,000,000 of Baltimore & Ohio, 4½ per cent equipments at 99½ and interest, $6,000,000 Pere Marquette, first mortgage 5 per cents. at 95. The total of railroad issues was $27,080,000, of municipals $31,-575,000 and of public utilities $16,314,000.

Buyers were holding off, and the market yielded easily under a comparatively small volume of selling. The combined average of forty high grade listed bonds on April 27th was

91.96, compared with 94.24 on March 27th, and 93.97 on April 27, 1916. Many high grade railroads lost more than this.

The foreign government issues in this market advanced from 2 to 5 points on the entrance of the United States into the war. The convertible, secured, issues were in best demand, and the secured non-convertible next, the latter selling on a 6 to 7 per cent. basis. Anglo-French loan about 94.

There is an evident inducement for persons who are subject to the higher super taxes upon incomes to sell other securities for the purpose of re-investing in the non-taxable 3½ per cent. bonds, but there is no evidence of a large selling movement as yet. Not much activity or strength can be looked for in the general market until the situation as to the government loan takes shape.

The stock market has been inactive and weak.

The British Fiscal Year.

The regular British fiscal year ends March 31st, and for the year just past the total expenditures of the government were approximately $10,990,000,000, of which about $2,867,000,000, or approximately 25 per cent., was met by revenue and the remainder by loans. The revenues of the year exceeded the Treasury's estimates as submitted at the beginning of the year by about $350,000,000, the principal item of the excess being in the excess profits tax, which yielded $280,000,000 more than calculated. The revenue receipts from taxation and other sources for the last full year of peace, ended March 31, 1914, and for the last year, are given below for the purpose of showing the sources from which the new revenues have been obtained. The figures above and below are made by the conversion of the pound sterling at $5, and for accuracy about 3 per cent. should be deducted.

REVENUE OF GREAT BRITAIN.

	Year to March 31, 1917	Year to March 31, 1914
Customs	$352,805.00	$177,250.00
Excise	281,900.00	197,950.00
Estate, etc., duties	156,160.00	136,795.00
Stamps	39,390.00	49,830.00
Land tax	3,200.00	3,500.00
House duty	9,700.00	10,000.00
Property and income tax (including supertax)	1,025,165.00	236,245.00
Excess profits duty (including munitions levy)	699,600.00	....
Land value duties	2,605.00	3,575.00
Receipts from taxes	$2,570,525.00	$815,145.00
Postal service	$121,750.00	$105,950.00
Telegraph service	16,750.00	15,400.00
Telephone service	32,000.00	32,650.00
Crown lands	3,250.00	2,650.00
Receipts from sundry loans	40,280.00	7,900.00
Miscellaneous	82,585.00	11,520.00
Receipts from non-tax revenue	$296,615.00	$176,070.00
	$2,867,140.00	$991,215.00

Up to March 31st last the United Kingdom had raised for the war $20,575,000,000, including the peace-time cost of the army and navy, and including advances to allies and colonies. These advances to March 31st had amounted to $4,800,000,000, and are assumed to be reimbursable sometime. The total British debt on the above date was approximately $19,500,000,000. The sums advanced to allies and colonies have exceeded the amount of British borrowings in this country together with the amount of other securities sold here, hence if interest is received upon the advances to allies and colonies the net income of the British people from abroad will not, on the present showing, be less than before the war.

The *London Economist*, of March 31st, discussing the expenditures upon the war, says:

"Luckily, most of our capital is in a form which the enemy has not yet been able to damage materially, and the government is unable to take and fire out of a gun. Most of the goods and services that we are putting into the war are produced, and must be, as the war goes on, and their production does not materially diminish our power to produce goods and services for peace when peace comes. * * * We have greatly increased our productive power in the war, and the solvency of a state, as of a business, depends on its productive power in relation to its consumption."

This accords with the opinion we have repeatedly expressed. The workshops of England have not been expended on the war. They are all there, many of them enlarged, more efficiently equipped and operated than before. The great public debt is held at home, and although most of it represents unproductive expenditures, the payments upon it after the war will not be unproductive expenditures. They will by no means constitute a dead weight burden upon the country. There were 5,000,000 subscribers to the last British loan, and each one will have an income from that source to offset in part at least the taxation which he must bear for that purpose. The payments upon the debt at the worst involve not an extinguishment but a redistribution of income, the proceeds of the taxation being disbursed to the debt-holders and remaining available for the usual business purposes which effect a wide diffusion of benefits.

Railroads Organize for the War.

The railroad companies, in view of the enormous pressure upon their facilities, and the importance of rendering the most efficient service possible during the war, have taken a step which may prove to be epoch-making in its lasting results. It is nothing less than the consolidation of all the railroads of the country under one management for operating purposes. At a meeting of the Presidents, held in Washington on April 11th, the following resolution was adopted:

"RESOLVED: that the railroads of the United States, acting through their chief executive officers here and now assembled, and stirred by a high sense of their opportunity to be of the greatest service to their country in the present national crisis, do hereby pledge themselves, with the Government of the United States, with the Governments of the several states, and with one another, that during the present war they will coordinate their operations in a continental railway system, merging during such period all their merely individual and competitive activities in the effort to produce a maximum of national transportation efficiency. To this end they hereby agree to create an organization which shall have general

authority to formulate in detail and from time to time a policy of operation of all or any of the railways, which policy, when and as announced by such temporary organization, shall be accepted and earnestly made effective by the several managements of the individual railroad companies here represented."

An organization was effected with Fairfax Harrison, President of the Southern Railway System, as Chairman, and the chief executives of the New York, New Haven & Hartford, Chicago, Burlington & Quincy, Southern Pacific and Pennsylvania companies as members of the executive committee. This committee is supported by subordinate committees in various sections of the country and the organization as a whole will operate the railroads as one system, pooling their equipment and physical resources, routing freight and regulating traffic and train service to secure the best results. The traffic which is of the greatest importance will get the preference, unnecessary duplications of service will be eliminated, and congestion in some degree at least, will be avoided. All the railway facilities of the country will be co-ordinated.

This action is highly creditable to the railway officials and it is evident that the plan will give the community an exceedingly interesting experiment. It is not doubted that important economies will be accomplished, but it remains to be seen how great they will be and how the individual companies will fare under the arrangement. If there are great gains to the public it is scarcely conceivable that the organization will ever be dissolved and roads go back to independent and competing operations.

This country will not be and should not be content with anything less than the best and most economical railway service that can be had. In the past it has been the public policy to compel the railroads to compete, although the advocates of government ownership have claimed that great advantages would be realized by consolidating the lines under one management. Possibly a system can be worked out combining the benefits claimed for government ownership with the benefits of private ownership and management. The problem is too complex for hasty conclusions, but permanent good should come from the experience.

Penalizing Economical Methods.

Our readers have had their attention called to the action of Congress in attaching riders to appropriation bills virtually forbidding the use of premium or so-called efficiency methods in government workshops. The practice had developed in the machine shops of the arsenals of making a scientific study of the work of each class to determine the routine which involved the least exertion on the part of the workman and accomplished the highest results. Having determined this and how much product constituted a fair day's work, the regular wages were established upon this basis, but a system of premiums was established under which the workman might increase his own pay by acquiring more than average efficiency. The system gave improved results to the government and larger earnings to skillful men. It was abolished by acts of Congress taking effect July 1st, 1916, over the opposition of the heads of the arsenals and of the present Secretary of War.

At recent hearings before the House Committee on Military Affairs, Gen. Crozier, Chief of Ordnance, made a showing of the decline of output following the abandonment of the premium system.

He presented to the committee forty-nine comparative instances selected at random of the same job done under the forbidden bonus system and under the present day wage payment. The first job on the list was retapping the base of 4.7 inch shells. The worker in question, under the premium system of payment, had previously done 100 of these shells in ten hours. Concerning this typical case, Gen. Crozier testifies as follows:

"As soon as he had finished that job he was given the next day another 100 to do, but the second 100 were to be paid for out of funds appropriated in the act forbidding the payment of premiums, and to do the second 100 he took 22.95 hours. The first 100 were done in ten hours and the second 100, done immediately afterwards, were done in 22.95 hours. That is to say, it took him two and three-tenths times as long to do the same amount of work under the day-rate system of payment as it took him under the premium system."

One of the members of the committee asked for "the worst case" instead of a "typical case." To this Gen. Crozier replied:

"The worst case which I have of a job done by the same man was a job of cutting a slot in 4.7 inch base slugs. A man did 100 of these in 2.66 hours under the premium system, and then afterwards he did 20 under the day-rate system in 2.25 hours; that is to say, it took 2.66 hours to do 100 and it afterwards took 2.25 hours to do 20, one-fifth the number. It took four and two-tenths times as long to do one under the day-rate system as it took under the premium system."

As a general result of abolishing efficiency methods in the Watertown arsenal, Gen. Crozier testified that within a few months the cost of production increased 2.2 times. He stated that the object of the study was not "to ascertain the quickest possible time in which work can be done, but to ascertain the time in which work can reasonably be expected to be done, without injury or disagreeable effect to the workman."

This is an unpleasant showing to come at a time when the government is facing enormous expenditures, and there is a shortage of man-power in the industries on every hand. There was never any evidence to show that the workmen in the arsenals were induced by the premium system to overwork; there was no anxiety on the part of workmen to leave the arsenals for work elsewhere, but on the contrary much credible evidence that the men were pleased to have the opportunity of increasing their pay. The difference in output is the difference of results between methodical, scientific procedure developed under study, with pay based in part upon output, on the one hand, and unsystematic, unsurpervised working methods, without incentive, on the other. Driving methods which induce overwork are not to be encouraged, but intelligent co-operation between management and workmen to

STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS APRIL 27, 1917.

(In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco	Total
Gold coin and certificates in vault	13,665	155.072	24.580	18 558	6.466	6 092	34.107	8,899	12.055	7,891	8.420	15.993	311,798
Gold Settlement Fund	13,184	75,767	3,872	22,845	16,200	7,115	21.947	2,025	4,988	26,133	9,463	4,381	207,920
Gold Redemption Fund	50	250	250	55	608	386	204	85	350	157	80	43	2.518
Total gold reserve	26,899	231,089	28,702	41,458	23,274	13,593	56,258	11,009	17,393	34,181	17,963	20,417	522,236
Legal tender notes, Silver, etc.	512	23.871	556	112	136	883	1.347	1.430	295	38	1.064	96	30.340
Total Reserve	27.411	254.960	29.258	41.570	23.410	14.476	57.605	12.439	17.688	34,219	19,027	20,513	552.576
5% redemption fund—F. R. bank notes										300	100		400
Bills discounted, Members	6.069	740	1,533	3,020	7,356	2,319	2.791	3,317	3,750	567	2,844	717	35,043
Bills bought in open mark't	6.740	16.595	10 711	4.639	6.775	2,732	5,555	2,781	6.171	1.384	824	6,493	71,400
Total bills on hand	12.829	17.335	12.244	7.659	14.131	5 051	8 346	6,098	9 921	1.951	3.668	7.210	106,443(c)
Investment U. S Bonds	530	1.306	549	5,844	1.152	672	7.007	2,233	1,743	8,792	3.966	2,429	36.223
One-year U. S. Treas. notes	2.194	2,788	2 548	1 865	1,969	1,491	2,985	1,444	1.452	1,784	1.430	1,500	23 450
U. S. certif's of indebt'ness	3,000	20,000	3,500	4.940	2,080	2,382	5 680	3,235	2,000	2,933	2,900	5,495	58,145
Municipal Warrants	133	5.154	1,449	2.947	15	12	2.217	1.068	177	456	560	811	14 999
Total Earning Assets	18 686	46,593	20,290	23.255	19,347	9.608	26.235	14.078	15,293	15 916	12.524	17.445	239.260
Federal Reserve Notes, net	2.772	10,974		1,397			4,016			320		1,098	20,622
Due fr. other F. R. Bks. net	6,732		6,559	4,168	2,085	2,395	7.575			6.982		5 949	132(b)
Uncollected items	16,652	50,554	24,357	13,504	9,338	10,169	31,439	13,127	4,962	10,454	6,236	14,050	204.842
All other resources	75	654	497	216	120	1.138	797	497	117	174	1.172	136	5.757
TOTAL RESOURCES	72,292	361,925	80,961	84.410	54,300	38 286	127.712	40.141	38.060	68.365	39.059	59.191	1.023.589
LIABILITIES													
Capital Paid in	5,039	11,883	5,253	6.240	3,431	2,418	7.002	2,945	2.431	3,089	2,723	3,935	56.409
Government Deposits	7,917	18,211	6,504	3,357	7,546	10,988	8,014	1,795	3,849	10.726	8,926	11,856	99,689
Due to members—reserve account	49,115	262,389	43,532	61,296	25,652	18,574	97.116	25,793	27,843	46,926	22,527	39,042	719,785
Collection items	10,128	29,524	22,753	13,517	7,860	4,520	15,580	7,499	2,606	7,624	3,179	4,242	129,032
Federal Reserve Notes-net			2,786		9,811	1,786		1,557	1,182		1,104		18,226(a)
Due to other F. R. Banks net		41,812						552	149		600		
All other Liabilities	73	126	133									116	448
TOTAL LIABILITIES	72.292	361,925	80,961	84.410	54.300	38,286	127.712	40.141	38,060	68,365	39.059	59.191	1.023,589

(a) Total Reserve notes in circulation 420.509

(b) Difference between net amounts due from and net amounts due to other Federal Reserve Banks, 132: The Gold Reserve against Net deposit and note Liabilities is 68 6% and the cash reserve is 72 5%. Cash Reserve against net deposit and note liabilities after setting aside 40% Gold Reserve against net liabilities on Federal Reserve Notes in circulation 73.3%.

(c) Bills and acceptances: municipal warrants: 1—15 days 38,413; 16—30 days 22,988; 31—60 days 39,945; 61—90 days 17,090; over 90 days 30,060. Total 148.496.

get a larger product, with benefits fairly divided, has been proven over and over again to be the way of progress.

Portland, Oregon, Terminals.

We have been following with great interest the important work now going on in the construction of modern warehouses in many of the leading marketing centers of the country, and the improvement of dock and other terminal facilities which will cheapen the storage and handling of the staple commodities. It is difficult to overestimate the value of these improvements to both producers and consumers.

On the Pacific Coast one of its oldest ports has in recent years made important progress in channel and harbor development. We refer to Portland, Oregon, on the Willamette River, 12 miles above its confluence with the Columbia River and distant 110 miles from the sea. Perhaps one of the most remarkable achievements in bar and channel improvements yet recorded was the removal of the bar at the mouth of the Columbia River. Before improvement this bar had a low water depth of only 20 feet and was a most formidable handicap to the extensive shipping of the port, but by the practical completion of the government project there has now been secured a permanent entrance channel having a depth of 40 feet at low water, and it is fully expected that the present width of 800 feet will be increased to at least 2,000 feet at the close of this year. This entrance channel, then, will be equal to the Ambrose channel to New York, both as to depth and width, and superior to most harbor entrances in this country or abroad.

From Portland to the sea the ship channel project of 30 feet at low water has been completed, permitting, with very few exceptions, the largest carriers of the Pacific to reach, at low water, the docks of the port, to which the large naval vessels often come up to participate in some of the city's annual festivities.

In the port itself, over four miles of the river frontage has been improved with wharf facilities by private interests, and the city has improved an additional one-half mile with most modern docks and warehouses at a cost of $2,500,000. At the coming June election the people will be asked to authorize the further expenditure of $3,000,000 for the construction of a large and modern wheat elevator and for increased pier and slip facilities for the accommodation of general cargo and heavy bulk freight.

With these added shipping facilities and most excellent channel conditions, the port will be placed in the best possible position to handle the greatly increased shipping which it is confidently expected will be the port's share after the close of the war.

THE NATIONAL CITY BANK OF NEW YORK
1917

Economic Conditions
Governmental Finance
United States Securities

NEW YORK, JUNE, 1917.

Preparing for War.

THE past month has been one of active preparations for war, and interest has centered at Washington. Legislation for creating an army by selective conscription has been passed, and measures for increasing the resources and regulating food supplies have made progress but are still under deliberation. The eminent special commissioners representing the governments of Great Britain and France have been in conference with our government, and after numerous public functions at which great warmth of feeling for the allied cause was displayed, have taken their departure. The commissioners from Italy are here and special representatives from Russia are understood to be on the way to this country.

The organization of the Council of Defense has been further developed by the appointment of numerous sub-committees for the various branches of industry which will be required to furnish war supplies, with a view to securing the greatest possible efficiency in meeting the governments wants, and of concentrating industrial operations upon the work of most importance to the country. For example, the distribution of coal will be taken in hand, so that the essential industries will have the first call on it. If a ship is waiting in port for coal it will get the first coal available, no matter whether it is coal consigned to it or not.

A census is being taken of the stock of tin and other essential supplies and if the stock is short the most important needs will be satisfied, owners dividing up stocks with competitors as necessary. A willing spirit is everywhere shown.

Judge Gary is at the head of a general committee on steel and iron products, with a half dozen sub-committees under it. The appointment of General Goethals as director of the shipbuilding program has resulted apparently in a modification of the plan for wooden ships and an expansion of program for steel ships. It has been assumed that the construction of steel ships was necessarily limited by the fact that the steel mills have their plate capacity sold up for nearly a year ahead, but if government orders are given the preference this does not count. The total plate capacity of the country is estimated at around 5,000,000 tons, and new capacity, under construction, is probably 15 to 20 per cent of this amount. If the making of plates for other purposes is curtailed and the mills are relieved from existing contracts, plates will be available up to the limit of the labor that can be had for ship constructions, and General Goethals estimates that 3,000,000 tons of shipping can be built in 18 months. It is scarcely necessary to say that the steel mills do not profit by this substitution of government orders for private orders, as the latter pay much the better prices.

The Liberty Loan.

The placing of the $2,000,000,000 loan is the most important task in the program of war preparations at this time. It is not out of place to say now that the country was not ready for the offering when it was announced. The public mind had not been adjusted to the billion dollar standard, and did not readily comprehend the magnitude of the task and the broad distribution that would be necessary. Nor was there a clear understanding of the source from which the funds must come and of the steps which were necessary in order to make them available.

The following estimate prepared by the Treasury Department, and based upon the banking resources of the several Federal reserve districts, has been very helpful in giving a definite mark for each section of the country. The estimate for the several reserve districts is as follows:

Boston	$240,000,000	to	$300,000,000
New York	$600,000,000	to	$750,000,000
Philadelphia	$140,000,000	to	$175,000,000
Cleveland	$180,000,000	to	$225,000,000
Richmond	$80,000,000	to	$100,000,000
Atlanta	$60,000,000	to	$75,000,000
Chicago	$260,000,000	to	$325,000,000
St. Louis	$80,000,000	to	$100,000,000
Minneapolis	$80,000,000	to	$100,000,000
Kansas City	$100,000,000	to	$125,000,000
Dallas	$40,000,000	to	$50,000,000
San Francisco	$140,000,000	to	$175,000,000

It has taken time to organize the working forces, but that has been done, and in all sec-

tions of the country an effective canvass is now being made. The regular bond-selling houses have given their costly organizations wholly over to this loan, without charge. Outside of the larger cities, where the bond houses have taken the lead, the banks are generally in charge of the organization, and cooperating most earnestly. Employers of labor, besides subscribing for themselves, are usually arranging to aid their employes in doing so.

As an example of the effective work being done in some localities the following report from Pittsfield, Massachusetts is given:

Pittsfield, following an active publicity campaign, closed down all business for one hour last Friday, by a proclamation from the Mayor, and devoted this period exclusively to obtaining Liberty Loan subscriptions. Teams were organized comprising about 1,200 men and women to thoroughly canvass the business and residential districts, as well as all of the manufacturing industries. In the Pittsfield district, with a population of approximately 47,000, subscriptions were obtained from 9,335 people, totaling over $2,216,000. The apportioned amount for this territory was $1,620,000. Pittsfield's largest industry employs about 7,000 people, and subscriptions were obtained from 4,900 of these. In one department 317 girls subscribed for $17,000.

This "Liberty Bond" will be the first interest-bearing security ever owned in many homes. It will introduce to many persons the sensation of having an income from savings, and of having a piece of property which is a definite basis of credit, upon which money can be realized at any time. Once that position has been achieved, the natural impulse will be to strengthen it by adding to the accumulations, and if this experience should make us a nation of bond-buyers the wastes of the war would soon be recovered.

Excellence of the Investment.

As this campaign proceeds more emphasis is laid upon the excellence of the investment. Although 3½ per cent. seems like a low rate in many sections of the country, it is to be remembered that this is the minimum rate. If any subsequent loan is issued at a higher rate, these bonds will be convertible into the new loan. This is a proper provision for the protection of the persons who come forward promptly to assist the government. Without it, if subsequent issues were made at a higher rate the equivalent of a premium would be paid to those who had held back. The law gives assurance that all who subscribe to the government's loan will be placed upon the same basis. If the war is a long one it is not improbable that the rate will have to be higher. And there is one further probability of profit: the interest rate will have to be such as will sustain the bonds at par during the war, in order to induce further subscriptions, and if the bonds are worth par during the war they will go well above par when the war is over. On the whole the outlook to a subscriber is for a very good return, when the quality of the investment is considered.

Loan Must be Raised from Income.

The loan must be raised from the current income of the country. This is a most important fact to keep clearly in view. Some readjustments of investments by selling there will be, but every sale requires a buyer, and the aggregate of investments can only be increased out of new profits and savings. It is not to be expected that people will have money lying idle with which to buy these bonds. They must be urged to subscribe and apply their future incomes to the payments. The government accepts payments in installments, the last of which falls on August 30th, and if these come too rapidly the local banks must make loans to suit the situation.

This obligation upon the banks to lend on the bonds to assist in their disposition must not, however, be stretched into an obligation to carry the loans indefinitely. Loans should be based upon the ability of subscribers to reduce them from time to time and finally extinguish them. It must be remembered that the banks must be relied upon to handle the current business needs of the country, and that other government loans are coming.

Economic Conditions.

Discussion over the necessity and advisability of economy continues, but gradually the unescapable facts of the situation are compelling a readjustment of business. There is an axiom in physics that no two bodies can occupy the same space at the same time, and somewhat analogous to this is the proposition that no person can spend his income twice at the same time. He cannot at one and the same time give his income over to the government for its use, and also go on spending or investing it as usual himself.

On the face of the situation this would seem to be axiomatic, but it is not quite that. By the employment of credit it is possible to do something that for a time looks very like eating your cake and having it too. Apparently you can spend your income as usual, and borrow what you lend to the government.

This appears so simple that many people regard it as a solution of the problem. "Business as usual" appears to be possible and just the thing. But there is more to it. Expenditures involve purchases, and getting possession of certain tangible things. You have turned over certain purchasing power to the government, and in your effort to continue using that power yourself you now meet the government in the market as a competitor. The supply of goods is no greater than before; the supply of labor is no greater than before; but the demand is increased. You are determined to put up a building, and you meet the government's agent at the steel mill. Who shall have the steel?

Evidently there is a limit upon the effort to do business as usual, a physical limit fixed by the capacity of the industries. Business must be adapted to the new conditions which the war creates. The ideal adaptation would be to give the government every man it can use advantageously, every ton of steel that it can put into a gun or a ship, every yard of cloth that it needs for the army, and supply every other requirement, first; then do business as usual on what is left.

The best guide the average man can take for his expenditures is to keep before him the needs of the government for money. Let him compare the use the government will make of it with any use he is contemplating; and let him remember that having turned any part of his income over to the government, he cannot go on using it himself without creating an inflation of credit which will diminish the value of his aid to the government. Our help to the government must of necessity include self denial and a readjustment of our expenditures. An attempt to overcrowd the industries will create an inflation of credits, wages and prices which will make a dangerous situation after the war.

General Business Conditions.

The course of business has confirmed the opinion that war meant an increased stimulus to the industries, modified only by the necessity that under the pressure of more business than they can handle there must be contraction in some quarters in order that there may be expansion in others. Luxury trades are suffering, as inevitably they must, but that only means a shift of employment.

The great industries of the country, with steel leading, never before were under such pressure. Apparently the government requirements are proving to be more of a factor than was anticipated; at any rate private consumers are competing so vigorously with each other for the remaining capacity that prices are still on a rising scale. The announcement that the British government has discontinued work upon the construction of a great new munitions factory for the reason that they would be able to buy more finished munitions in the United States shows the effect of granting credits and indicates that there is no end of this class of business except in the limit of our capacity. The departure of one engineering commission to Russia and another to France, and the announcement that several thousand picked railway men are to be sent to France to put the railways in order, are indications of enormous demands from those quarters.

Inquiries in the steel trade indicate an enormous booked up business. Most of them now are for the first half of 1918, but there is willingness to contract even into 1919, although on the basis of present prices this is highly speculative and steel-makers discourage it. It is common opinion, however, that the iron and steel business is in for several years of full production, and the largest people in the trade are proceeding upon this theory.

The weak spot in the industrial organization is the railroads. Nearly all the industries could do more if they were not hampered in getting necessary supplies and could get their products promptly out of their way. This is particularly true of the handling of coal and coke. The railroads are undoubtedly doing better, but the volume of traffic is in excess of their capacity. They need equipment and facilities of every kind, but perhaps their most pressing need is for locomotives, for the strenuous service of the past year has been hard upon motive power. Railway officials are putting forth every possible effort, operating all the railways as one system, so that surplus capacity on any line is brought into use. The volume of traffic actually handled is much beyond any past record. The gross earnings, as shown by Dun's Review, for the first two weeks of May were 11.3 per cent. higher than for the same weeks of 1916, and as rates have not been raised in the meantime this means a corresponding increase of traffic.

With the advance of spring, retail trade has improved and there is little to suggest any curtailment on account of high prices. Reports have been current of the effect of economy in the textile trades, but whatever curtailment there has been in style goods has been quite lost in the demand for staple goods and for the government's wants.

The resumption of outdoor work increases the demand for labor, and there are complaints of shortage everywhere. Farm wages by the month are higher than ever before, made necessary by the competition of the town industries.

The good prospects now for the crops gives encouragement to hope that living expenses will at the worst be no higher next winter, and may be lower. If so the strain in the industrial situation will be in some degree relaxed.

All agricultural products at present are at very high prices. Hogs at western markets keep close to the $16 mark, choice steers at Chicago, $11.25 to $13.65, spring lambs, $20; all of these figures per hundred weight. Butter and eggs are going into cold storage at the highest prices every known. Wool has been selling in Montana up to 50 cents per pound, and a few sales at 52 cents have been reported.

Financial Conditions.

The money market is firmer, under the influence of prospective demands upon the banks in connection with the government loan. Time money is practically on a 5 per cent. basis,

although some loans are made at 4½ per cent. Call money is 2½ to 3 per cent. closing the month at the latter figure.

The situation is quiet and without disquieting features. The Federal reserve banks held on May 25th, $47,587,000 of bills discounted for member banks, against $35,043,000 on April 27th last. Holdings purchased in open market were $52,708,000 on May 25th, against $71,400,000 on April 27th. These figures show that there has been practically no encroachment upon the reserves of the system as yet.

The amendments to the Federal reserve act which have been pending some time, affecting reserves and calculated to accomplish a large transfer of gold to the Federal reserve banks, are still in conference between the two houses of Congress, but are expected to be acted upon in a few days. The Senate voted in a new amendment, providing for a collection charge upon checks, to settle the vexed controversy over that subject and remove the chief objection to the reserve system on the part of country banks. The House has voted instructions to its conferees to accept the Senate amendment, but there seems to be some question yet as to the action of the Conference Committee.

It is understood that there will be an important movement of State banks and trust companies into the system as soon as the pending amendments have been adopted.

Bank Deposits.

It is natural that bankers should have some misgivings as to the effect upon their own deposits of heavy subscriptions to the government loan. In the long run it is perfectly certain that bank deposits will be generally increased. This is an inevitable result of a general increase of loans. The proceeds of the loans will be disbursed by the government practically as fast as received, and will quickly find their way back to all localities. To the extent that reserves are drawn down temporarily by the payments, banks must expect to borrow of their correspondent banks in the cities or of the Federal reserve banks. This is no time to stand on the policy of never borrowing.

The experience of other countries indicates that savings deposits will not be greatly disturbed. In Canada savings deposits increased from $722,000,000 on December 31, 1915 to $982,000,000 on March 31, 1917.

The authority of the Federal reserve banks to re-discount for member banks customers' paper secured by government notes or bonds, will be found in paragraph 2, section 13, of the Federal reserve act. This paragraph provides that upon the indorsement of a member bank a Federal Reserve Bank may discount notes, drafts, and bills of exchange arising out of actual commercial transactions, which may or may not be secured by staple agricultural products or other goods, wares, or merchandise. The law then states that "such definition" of eligible paper shall not include notes, drafts, or bills of exchange drawn for the purpose of "carrying or trading in stocks, bonds, or other investment securities *except bonds and notes of the Government of the United States.*" This is equivalent to an affirmative declaration that a Federal Reserve Bank may discount a note, draft, or bill of exchange indorsed by a member bank which is issued or drawn for the purpose of carrying or trading in bonds or notes of the United States.

Gold Shipments to Japan.

The continued movement of gold from this country to Japan has been the subject of considerable comment of late, having amounted to about $45,000,000 in the last eight months, and increasing of late.

The balance of trade between this country and the United States is undoubtedly in favor of Japan, but it is thought that the movement is not wholly on this account. British shipments of gold to this country have been made largely for the purpose of keeping money conditions here easy, in order to facilitate the placing of loans, and have been made with the understanding that the bankers of this country would discourage exports to other countries. It has been felt that the gold supply should be conserved so far as practicable for devotion to war purposes. American bankers have sacrificed profits to this end, and in view of the common purposes of Great Britain, Japan and the United States it has been felt that there should be a community of interest in this matter. The United States has undertaken an immense task in financing the war, and although its gold stock is very large, it cannot be too large for the burden that may be placed upon it. It is pleasing to know that this view is appreciated in Japan, and that steps will probably be taken to invest the accruing balances due Japan in this country, either in American or British securities, thus curtailing the gold movement.

Crop Conditions.

The outlook for food production in this country has very much improved during May. Although the spring has been backward the conditions on the whole have been favorable for giving the crops a good start. Winter wheat has revived so that a much better showing is expected from the next government report, and spring wheat conditions are nearly ideal. On account of winter-killing the crop of winter wheat will be under that of last year. The acreage in spring wheat in the principal spring wheat territory is no larger than last year's, but if weather conditions remain good the yield will be much larger than last year. The most critical time for spring wheat is when it is ripening. If no bad luck attends it

then the total yield of wheat may be 700,000,000 bushels, against 640,000,000 last year. Another favorable turn in the wheat situation is that the high prices early last month, followed by ordinary prices, stimulated everybody to sweep the bins and rush the holdings to market. It is a proverb that an astonishing amount of wheat always comes out under such conditions, and a highly regarded Chicago authority now estimates a carry-over of 50,000,000 bushels. There is considerable wheat in Australia, the long voyage having interfered with its movement to England, and recent prices started shipments from this source to the United States.

The acreage in rye, barley and flax has been notably increased, and in corn is likely to be immense. The promise for fruit is good, garden planting has been extraordinary, soil conditions are excellent, and notwithstanding the cold weather we venture to believe that the present outlook is for the greatest production of foodstuffs ever raised in this country.

Of course there are people who will say that they knew it all the time, and that there was never any occasion to sound an alarm. The truth, of course, is that they knew no more about it than any one else. The crop is not assured yet; the risks of weather and insect pests have yet to be passed, and if the highest promise is fulfilled there will be none too much. At best the wheat crop will be 300,000,000 bushels under that of 1915, and wheat is what is most wanted for export. The people of this country must eat more corn bread and oat meal. There is yet time to increase the acreage in buckwheat and beans, both substantial articles of food, and there should be no let-up in the efforts to make it as large as possible. After these should come the forage crops, to keep up the flow of milk and save the feeding of grain to stock through the winter. There ought to be a million silos built and filled before the growing season is over. They will not only help to win the war but to make living cheaper after the war.

The outlook for the cotton crop is for no better than a moderate one. The acreage probably will not be above that of last year, the agitation for a larger acreage in food crops having headed off an increase which was predicted to result from the high prices. The cold spring has made the plant backward, and at this time it does not appear to be thriving. Exports of cotton are not quite up to last year, but home consumption is heavy, the demand for cotton goods is strong, and raw cotton is around 21 cents per pound.

The Wheat Market.

Last month in the wheat market was one of the most exciting in the history of the grain trade, prices touching the highest figures ever known, and the situation culminating in action by the leading exchanges to restrict trading and close out existing contracts. Naturally, there was great public interest in these events and a vast amount of uninformed and excited comment upon them. Whenever prices go up it is assumed by many people that speculation is responsible for it and that nothing is required but action by the government, preferably by hanging somebody, to bring prices down to comfortable levels again. The effect of such talk, particularly when it comes from persons of high position, is to mislead and inflame the public, and probably aggravate the situation.

The situation in the wheat market has been an extraordinary one this spring, as the visible supply diminished, new crop prospects deteriorated and the export demand became seemingly more imperative. The May option had been the one commonly traded in since last fall, and large quantities of wheat had been sold for May delivery. The agents of the allied governments were the largest buyers, and their purpose was to take the wheat. Of course there were speculators on that side of the market, but contrary to the common understandinig it is apparent that most of the professional traders had been on the selling side. They had believed there would be wheat enough to go around and had sold short, or, in other words, had sold what they had not yet acquired, expecting that before May had passed the wheat would come into sight and that they could obtain it for their contracts. So far as the mere statistical situation was concerned they were right; it is now evident that there was wheat enough in the country to fill the normal demand, but they made at least one serious miscalculation. They overlooked another set of speculators, the housekeepers. The alarming reports about the winter wheat crops and the food situation in general, with the extraordinary efforts over the country to impress upon the public the importance of practicing economy in food supplies, and of growing more food, had an effect not anticipated: it started the housekeepers to laying in unusual stocks of flour. Grocer's stocks were cleaned out, the grocers bought heavily of the millers, and the millers went into the market and bid the price of cash wheat to a high premium over May delivery, and took the wheat.

Market Oversold.

As the market got into May, with practically no wheat in store for deliveries, the short-selling speculators awoke to the fact that they were in a dangerous position, and started to cover their contracts. That was the one thing remaining needful to send the market kiting. The situation became abnormal and dangerous. Without having been planned by anybody the market was virtually cornered, although cornered is hardly the word for a market which has no stocks; it was oversold, chiefly to the allied governments.

The railroad blockade was a factor in the situation. Grain could not be had to make the deliveries. A large number of the leading commission houses refused to take purchasing orders, hedging operations became impracticable. A number of the leading exchanges took the situation in hand by fixing maximum prices, and a meeting was called to be held in Chicago on May 15th. At this meeting representatives were present from eight of the leading grain exchanges of this country and from the Winnipeg exchange, also a large number of representative dealers and millers. This meeting approved of the fixing of maximum prices and recommended that such prices be continued and buying restricted to the closing of outstanding contracts until further notice. May wheat in Chicago sold up to $3.25 per bushel, but the Exchange fixed upon $3.18 as the settling price.

While the buying of the "shorts" was a factor in the final rise, it is evident that but for their short-selling the market would have gone up some time before it did. The people of this country were buying flour during the winter cheaper than they would have been but for this influence in the wheat market.

With a ban on trading the situation has quieted down. The allied governments changed over a lot of their May contracts to later deliveries, and the outstanding trades have been clearing up. As the season has advanced and the prospects for both winter and spring wheat have improved, and as it became more evident that there is plenty of wheat to last until the new crop is harvested, prices have naturally declined. All of this is accepted by some people as proof that the grain exchanges were responsible for making artificial prices, but that conclusion is not warranted.

At present there is no trading in futures, and no opportunity for hedging either on grain purchases or flour sales. Some changes in this situation will doubtless be made before the crop movement begins.

Functions of Speculation.

The public usually thinks of speculation as buying for the reprehensible purpose of advancing prices, but speculators sell as much as they buy, and play an important part in handling the crops. The latter are harvested in a few weeks, and somebody must carry the products throughout the year until harvest comes again. Nobody can definitely know at harvest time what wheat will be worth during the year to come, for it depends upon various factors yet to be developed. It is in its nature a speculative situation, and the person who undertakes to deal with it is necessarily a speculator. It is his function to make the price of wheat at harvest time approximate as nearly as possible, with allowance for carrying charges and compensation for risks, to what the price will be at the close of the crop year. In doing this he provides a fair market to the farmer, and assists the community to adjust consumption to the supply from the beginning of the year.

Of course there are those who deny that speculation does this, but their reasoning is not impressive. One writer, commenting recently upon the rise of prices says that the farmers let go their wheat last fall at $1.50 per bushel, that price being satisfactory to them, and that the rise since then has been beneficial to speculators only. But nobody knew last fall that the wheat crop of Argentina would be a failure, or that nearly one-third of the winter-wheat crop of the United States would be winter-killed, or that the prospective requirements of France, Great Britain and Italy would be as large as they have proved to be. These are factors that did not enter into the $1.50 price. It was known last fall that the acreage sown to winter wheat was the largest on record, and if the crop here and abroad had turned out more favorably the persons who bought at $1.50 might have lost money.

Moreover, it is incorrect to represent that the farmers sold all their wheat last fall, and that the speculators kept it all until this spring. The wheat crop was going into consumption during the meantime. There are no figures showing farmers' sales, but the arrivals of wheat at the eleven cities which are called "primary markets," show the rate at which the crop came into sight. These cities are Chicago, Milwaukee, Duluth, Minneapolis, Toledo, Detroit, Cleveland, St. Louis, Peoria, Kansas City and Omaha. These are points where large storage elevators have been constructed and where grain exchanges have been organized.

The receipts at primary markets during each month, the visible supply at the end of each month, and the highest and lowest quotation for cash wheat in each month, from July, 1916, to April, 1917, are shown below:

1916	Receipts	Visible Supply	Monthly cash prices—Wheat	
	Bushels	Bushels	High	Low
July	28,730,000	40,889,000	$1.31⅞	$1.04
August	48,475,000	52,546,000	1.64¼	1.22
September	51,915,000	57,418,000	1.71⅛	1.40½
October	42,161,000	60,470,000	2.02	1.57⅝
November	49,099,000	63,262,000	2.00	1.65
December	24,950,000	59,631,000	1.90	1.42⅛
1917				
January	20,870,000	49,659,000	2.05	1.64⅝
February	18,475,000	45,130,000	2.05	1.51¼
March	24,547,000	40,119,000	2.13	1.73¾
April	21,659,000	25,756,000	2.95¾	1.96⅛
	330,881,000			

For the week ending May 26, the receipts were 5,491,000 bushels, showing that there is still wheat back in the country and the visible supply on May 28th, was higher than on April 30th.

It is true, undoubtedly, that there is a large amount of blind speculation by persons who do not qualify themselves to have an intelligent opinion, but who buy or sell as they would lay a coin on the red or black. These persons are the hangers-on of the business, but the traders who make an honest study of conditions help to make

a stable market in which the necessary business of the country can be carried on.

Hedging Transactions.

The grain-buyers in the towns throughout the farming districts buy the grain from farmers and simultaneously sell it in the speculative markets for future delivery, with a margin to cover the costs of handling, carrying charges and their profit. The capital would not be available to handle the grain or cotton crops promptly if the speculative markets did not afford this opportunity for hedging sales. The people who talk of putting a stop to speculative trading evidently do not understand that without it the farmers would have to carry the crop largely themselves until it actually entered into consumption. This would mean that the price would break, and the spread between fall and spring prices would be greater than now. A trial of that was had in the cotton trade in 1914, when the cotton exchanges were closed and cotton fell to six cents per pound and even lower.

The millers use the speculative market to protect themselves in contracting for the future delivery of flour. A miller will contract now to deliver flour, say in December next. He hasn't the wheat yet, and does not want to buy it now, for he hasn't the warehouse room to store wheat for six months' grinding; furthermore, wheat will be cheaper after harvest. He bases the contract price for flour upon the market price of the December wheat option, and covers his requirement by a purchase of the latter. The miller may be located in Louisville, Fort Worth, Topeka or Bismarck, and his wheat option may be for Chicago delivery, and he has no intention of taking wheat in Chicago, but he is protected on his flour contract. At his convenience he will buy wheat for the flour, selling at the same time his Chicago option. If he is obliged to pay more for wheat than the price on which he made the flour contract he will be reimbursed by a profit on the Chicago option; on the other hand if the value of his option has fallen he will be reimbursed for the loss by a larger profit on the flour. He has been able to conduct his milling business on a definite basis.

The grain exchanges simply afford a meeting place for buyers and sellers, and maintain rules for regulating the business. They facilitate trading, make it easier to enlist capital in carrying the crops and thus broaden the market. The substantial houses in the business desire a normal market, with free play for all the price-making forces. A manipulated or artificial market is dangerous to everybody in the market and seriously interferes with the legitimate functions of the exchange. The influence of bankers is against efforts to control prices, because an artificial market is a dangerous market to lenders; and it may be broadly affirmed that attempts to manipulate the market are always subject to risks which carry much greater penalties than any which a court of justice would venture to inflict.

Government Control of Prices.

The difficulties attendant upon government control of prices are very much greater than are commonly assumed by those who advocate the policy. The purpose is to keep prices down, and officials charged with administration are likely to think that their duty, but it may be unwise to keep prices down. Prices have a direct influence both upon the rate of consumption and the volume of production, and unless the government undertakes to put the entire population on fixed rations, and to assume a military control of production, reliance must be placed upon prices to bring supply and demand into proper relations with each other. If the consumption of wheat is too high in the early part of the year the supply may be exhausted and there be none in the latter part. If the supply is short this year it is important that the crop shall be larger next year. There are many kinds of wholesome food products which are available for use here but which are not so suitable for export as wheat. Oatmeal is an article which until a few weeks ago has been selling in retail packages at the same price as before the war. That is a normal and proper price for wheat which will spread the supply throughout the year and accomplish such a degree of economy and substitution as will bring these other foods into use and enable us to meet the pressing foreign demand.

A proposal to fix prices in the interest of consumers immediately raises the question of the attitude of the farmer, who is urged to exert himself to the utmost. The farmer has been assured that nothing will be done about controlling the price while the wheat is in his hands, but that the price will be regulated to restrict trading profits after it leaves his hands. According to this proposal the trader is to have the same chance to lose his money that he has had heretofore, but his chance to make a profit is to be curtailed. Of course the effect will be to diminish competition in the business and lower the price paid the farmer. As an offset to this, a minimum price may be guaranteed the farmer, and in view of present conditions this is probably a wise thing to do.

The administration bill, pending in Congress gives sweeping powers in the matter of food control to the President. These will be exercised through an organization, the head of which it is understood will be Mr. H. C. Hoover, who is a man of large experience, and very favorably known through his management of the Belgian relief fund.

Under ordinary circumstances, and with an organization of government employes made up in the usual manner, the presumptions would be all against the proposed elaborate system of control.

The mischief which might be done by bungling amateurs or persons who assumed the task with fixed prejudices against all the existing machinery of the trade would be very great. It is, however, quite conceivable that a man of Mr. Hoover's experience, representing the public authority, may be able to coordinate the existing agencies of distribution so as to form a more effective organization. It makes all the difference whether the powers are to be used for destructive and punitive purposes, as government powers are customarily used, or for constructive purposes. If Mr. Hoover will create a cabinet consisting of the presidents of the grain exchanges of the country, or of otherwise selected high class men representing the grain trade and the milling industry, there is every reason to believe that he will have competent and disinterested advice upon the grain situation, and that benefits will be realized. Representatives of the leading farmers' organizations should be included. The organization for other food stuffs may be created in the same way, and it is understood that this is the general policy which Mr. Hoover intends to pursue. Under it the free play of natural influences will be preserved while a curb is placed upon the abnormal and artificial tendencies which are harmful. The reassurance of the public in order that it may not disturb the market by spasmodic and unnecessary demands, as in recent weeks, is one important result which may be achieved by having a responsible authority over the situation. It is conceivable also that advice from this authority as to economies and substitutions in the use of foods may be valuable, and it may render important service in distributing the purchases for export. The country needs to use its resources to the best possible advantage and the business men of all the trades are more than willing to co-operate with the government.

War Taxation.

The House bill levying new taxes estimated to produce approximately $1,850,000,000 of revenues has passed that body, and the Senate Committee on Finance has it under consideration. Important changes are indicated.

The agitation in favor of "making wealth pay," of insisting upon "a sacrifice of dollars as well as a sacrifice of blood," of "dragging individual and corporate wealth out of its hiding places," of "making war unpopular," of "saving future generations from the burden of war debts," goes on with a zest which suggests that to some at least of the participants the pursuit is real sport. There is a famous passage from Macaulay in which he gives currency to the opinion that the Puritans of the time of the Commonwealth objected to bear-baiting not so much because it gave pain to the bear as because it afforded amusement to the spectators. In the present instance there is reason for believing that the plutocrat-baiters are interested less in the revenues that may be produced for the Government than in the extraction of wealth from the rich.

There are sound reasons why an important share of the expenses of the war should be raised by taxation during the war. Most lines of business are under extraordinary stimulus, profits are larger than usual, wages are generally higher, and the employment of the people is very complete. Therefore the country can afford to pay taxes now better perhaps than it will be able to in the years following the war, when it may be suffering from reaction. Moreover, the industrial capacity and labor-supply of the country is occupied with war business to such an extent that it is impossible to go ahead with constructive work in other lines as usual. The current income of the country must of necessity be given over largely to the government, either through loans or taxation, to enable it to carry on the war, and the proportion between loans and taxation should be governed neither by a desire to favor or penalize wealth, but by the probable effects upon the general welfare, through the results upon industry, employment, and the ability of the country to meet conditions after the war. No taxation conceivably possible after the war will be as important to the masses of the people as the possible difference between a state of general industrial activity, with full employment to all the people, and a state of industrial depression such as this country experienced in the winter of 1914-15. Everybody will be able to pay his share of the taxes if the industries are busy, and still have a better living than he will have if the industries are depressed.

Fundamental Misconceptions.

The catch phrases which are used show the same want of comprehension of the fundamental relations of society which is responsible for most of the ill-feeling and friction in the industrial world. The agitation is all based upon the assumption that private wealth is devoted to the owners, and that if it is taken away from them, even though destroyed, nobody else is a loser. The whole idea is that the proposed taxation will reach hidden hoards, or possibly curtail the luxurious living of the rich, with apparently no appreciation of the fact that it will fall upon the industrial fund, the capital available for the support of industry.

Is the public interested in the industrial fund? Is it interested in the production of things for the public market? This is an opportune time to ask if it is interested in the supply and price of things of common consumption. Is the public interested in the development and improvement of industry, in the multiplication of power plants

and the enlargement of industrial capacity and output? Is it interested in the facilities for transportation? If it is agreed that the public is interested in these things then the proposal to withdraw capital in great amounts from these purposes should be considered with regard to its effect upon the public interests, instead of being treated as though the individual title-holders were alone concerned.

A Few Illustrations.

England, who led the world in the application of steam to machinery, has lagged in recent years in the improvement of industrial equipment, largely because of the mistaken opposition of the labor organizations, but with the tremendous pressure upon her working forces occasioned by the war, a new interest has been aroused in labor-saving machinery. A recent number of the London *Times* contains an article reviewing at some length the improvements that have been installed, and also telling of further opportunities to substitute machine power for man power. It said that a great deal of very toilsome labor was still done in England in loading and unloading ore and coal to and from ships by hand shoveling. Most of our readers probably know of the costly equipment installed at our lake and ocean ports where ore and coal are handled in large quantities, but does the public generally appreciate the saving of "toilsome labor," and the saving in money, which is thus accomplished? The editor of the *Marine Review*, Cleveland, is authority for the following statement, given in answer to an inquiry upon the subject:

> The loading record made by the steamer William E. Corey on September 8, 1911, has never been broken. On this occasion the Corey loaded 9,457 gross tons of Group 5 ore at the Allouez dock, Superior, Wis., in 25 minutes. The steamer made no shift and the ore was all in the pockets. The time of loading was computed from the time the first spout was lowered to the hatch and ended when the last spout was back in its place at the dock. The Corey arrived at the Allouez dock at 1:40 p. m. Loading began at 2.43 p. m. and was concluded at 3:08 p. m. She left the dock at 3:15 p. m. The total time loading was 25 minutes and the total time at dock and in port was 1 hour, 35 minutes.
>
> The unloading record is still held by the steamer P. A. B. Widener. On August 8, 1912, the Widener unloaded 10,636 gross tons of Pioneer ore at Conneaut in 2 hours and 50 minutes. The steamer began unloading at 2:20 p. m. and finished at 5:10 p. m. The entire cargo was loaded into cars.

The newspapers have recently told of the completion of a new coal pier at Baltimore by the Baltimore & Ohio railroad, at an expenditure of $2,500,000, with the latest handling appliances. Coal is more difficult to handle than ore, because there is waste from breakage. A description of the new Baltimore pier says:

> The structure is of unusual interest because of its capacity, which is claimed to be the largest of any coal pier yet constructed, and because it handles coal by belt conveyors instead of by gravity. This arrangement greatly reduces the breakage by making three feet the maximum fall for coal from the time it leaves the car until it reaches the ship.
>
> At the land end of the pier, which is of concrete and steel, are two car dumpers and next to them are balancing bins, into which certain of the belt conveyors empty. On the pier are four traveling loading towers that can serve as many ships all at one time. They are supplied with coal by sixty-inch belts, having a maximum speed of five hundred feet per minute. Supplementing these are two towers that trim the ships' loads.
>
> The functions of the entire plant are interlocked and controlled electrically by push buttons.

The superintendent of motive power of the Pennsylvania Railroad Company has recently given an account of the progress made in the last five years in the development of locomotive efficiency. Although the discussion is somewhat technical, the facts are extremely interesting, and we quote from him as follows:

> About five years ago the most powerful locomotive on the Pennsylvania Railroad for handling freight, was the class H8b. From the diagram you will see that its maximum capacity was somewhere round 1300 H.P. When it was exerting this power, its coal consumption was in the neighborhood of 5.4 pounds of coal per dynamometer horse power per hour. It was most efficient at about 750 H.P., and at that rate of output, its coal consumption was about 3.6 pounds per dynamometer horse power per hour. The application of the superheater to this locomotive resulted in the class of H8sb and was accompanied by an increase in the maximum power to in the neighborhood of 1600 H.P., and at that rate it developed a horse power on 4.25 pounds of coal per hour. Its most efficient point was at about 800 H.P., and at that rate it developed a horse power on 3 pounds of coal per hour.
>
> The introduction of our design of Mikado type locomotive, class L1s, resulted in increasing the maximum power from the figures above, to approximately 2600 H.P., as shown by the curve, and at that point the L1s locomotive produces a horse power on 3.75 pounds of coal per hour. This L1s locomotive has a wide range of high efficiency, and anywhere between 500 H.P. and 1500 H.P. the locomotive will give one horse power on 2.5 pounds of coal per hour.
>
> The other lines on this diagram show the L1s locomotive with a feedwater heater, which is a piece of apparatus we are developng now and which is going to make a further reduction in the consumption of coal per dynamometer horse power by practically one-fourth pound of coal under the economical points of operation above referred to, and we expect to get to the point where when developing between 500 H.P. and 1,500 H.P. the consumption of coal will be 2.25 pounds per dynamometer horse power hour. * * * It looks as though the range of maximum economy will be increased from 500 H.P. to 1500 H.P., to from 500 H.P. to 2200 H.P., and even at the maximum point, the new L1s locomotive, instead of going up to 4.75 pounds of coal, will never go above 3.25 pounds of coal per dynamometer horse power hour. These are estimated figures, but they are what we propose, and expect, to meet during the year 1917.
>
> All of this shows that during the last five years the economy and capacity of our locomotives has been more than doubled, and this has been obtained for an investment in property—insofar as the cost of the locomotives is concerned—that will not amount to a 30 per cent. increase.
>
> The effect on the cost per ton mile of these more powerful locomotives, is greater than that indicated by the economy figures referred to in the foregoing, because larger train units produce economies by themselves, irrespective of the economy from the design of the locomotive per se.

That is one little chapter of the story of research and expenditure which is going on constantly to reduce the cost of transportation, and similar efforts are going on in every field, for improving the industrial equipment which serves the community. The fact that transportation costs and living expenses increase, notwithstanding these efforts, does not lessen the importance, but, on the contrary, is a reason for emphasizing and re-doubling the efforts. The growth of population and the depletion of natural wealth tends to make the support of life more difficult, and the rising standards of modern life make new demands. It is only by improving the methods of production that the former losses can be overcome and the latter demands can be met.

The experience of the Chicago, Milwaukee & St. Paul Railway Company with electrical propulsion on its mountain divisions has been so satisfactory that it has determined to extend this equipment over 660 miles of road. Upon this portion of the line the consumption of coal will cease, and the traffic will be handled by power from the inexhaustive source of running streams. When all the coal deposits of the continent are exhausted, the streams will still be running, and meantime the "toilsome labor" of mining coal

and of shoveling it into the fire-boxes will not have to be performed for this traffic, and when all the water-powers are utilized the life of the coal fields will be greatly extended.

Profits Go Back to Increase Production.

The above examples merely illustrate the actual whereabouts and employment of this private wealth which we are savagely told must be dragged out of its secret hiding-places and devoted to public use.

But of course it will be said that all of this industrial equipment, although admittedly devoted to public use, is only rented to the public, at a profit. The owners are taking toll of the public and increasing their own riches; no thanks to them. But this is not a question of thanks; it is a question of results to the public. No investment can bring profits to the owner unless the public finds an advantage in using it; the profits of the owner are certain evidence of gains to the user. Moreover the profits of the owner, above what are consumed by himself and dependents, are put back into industry, creating new utilities, which in their turn, if successful, yield benefits to the public. It is the profits made by the introduction of new methods which finance more new methods, a cumulative and never ending process. There is no other use to which surplus profits can be applied but to the further expansion and improvement of industry.

Profits Necessary to Progress.

If all the industries of the country were turned over to the government, their functions would be unchanged, and whether the public was benefited or not would depend upon whether they were run more efficiently by the government than they are now. There would still have to be profits, or a surplus of production above current consumption, or progress would come to a stop. New capital from some source must be constantly forthcoming in a growing and advancing community to finance the new ideas that are always incubating and provide the increased capacity that is always required. Development cannot go on without the experiments and expenditures that private capital now pays for. If the government owned the railways it would have to provide for electrification, for the elevation of tracks, the construction of terminals, the production of power, and the increase of equipment, just as the companies do now, and it would have to get this capital either directly from surplus revenues or by borrowing from the public and making the rates high enough to cover interest charges.

The essential question then is whether the private owners personally absorb a larger share of these gains than they are fairly entitled to. However large profits may be we have seen that all except what the owners consume go back into industry. If all the industries were given to the government outright, and the latter hired the present owners to operate them on salaries equivalent to their accustomed living expenses, the situation would be practically the same as now.

Extravagance Is Offensive.

Are the owners getting too much, in receiving their living expenses as compensation for their services in managing the industries? They sometimes live extravagantly, and wasteful extravagance is offensive for many reasons, although often justified upon the theory that it "makes work." The world doesn't need to have work "made" for it; the great problem of society is to save work and to make work more effective in order that there may be a greater supply of comforts for all. If there was a clearer understanding of the part which savings and investments play in the progress of society, and of the fact that unproductive, wasteful expenditures retard that progress, there would be less of the latter. There is much ignorance upon this subject among both the possessors of wealth and their critics.*

The sense of social responsibility, of interest in the progress and welfare of society, is an attribute of the higher civilization. There is much evidence that it is growing, but it is not yet a dominating influence. The most powerful motive in the activities of men is still self-interest, the desire to win distinction and to command the comforts and luxuries that money will buy. The difference between the private ownership of industries and public ownership, or socialism, is that the former makes use of this motive. The successful owner has the privilege of fixing his own "salary," but over against this is the fact that he renders an interested, zealous, and more effective service than can be otherwise had. Nor is it simply that selfish interest inspires him to greater efforts; there is a freedom, an individual responsibility and opportunity for initiative which is of even greater importance. If all the industries were turned over to the government and it hired the present owners to manage them at salaries equivalent to their present living expenses, the situation would be the same as now so far as the actual distribution of product was concerned, but how long would results be the same? How long would the incentive to progress remain, and when these managers passed away by what system of preference would their successors be selected?

* Readers who wish to pursue this subject further should read "Poverty and Waste" by Hartley Withers.

Progress the Essential Thing.

It is natural to think of existing conditions as fixed and permanent, that there is only a routine of work to be followed, and that the principal problem is that of dividing up the current production. That is the outlook and scope of view of those who complain of the present order. But society does not stand still. It is constantly changing and improving the methods of industry. Managing a railroad is more than handling the traffic that is offered from day to day; it includes constantly re-building and re-equipping it into a better railroad, and that is the principal reason why the government ownership of railroads is undesirable.

The most important work for each generation is that of carrying society forward, making its own additions to the sum of inherited knowledge and giving to its successors something more than it received. This is accomplished in the manner illustrated above, and by using the savings of one achievement for the development of another. There must be savings, profits, accumulations, in order that there may be progress, and the greater they are the more rapid the progress will be. The conspicuous fortunes of the day, which it is common to say should have been distributed in the making or should be reduced or curtailed by taxation, are productively employed in ways permanently beneficial to the humblest members of the community and their children after them.

This whole country has been suddenly aroused to the importance of having an abundant yield of farm products this year. It is interested in the output of every farm, no matter who owns it. We deplore the loss of the wheat crop in Kansas, although we own no land in Kansas. We understand that the wheat crop of the world is a common fund, and that the yield of every locality affects the price of wheat everywhere. Land ownership cuts no figure in the price of wheat except as it affects the production of wheat, and the judgment of the world up to this time is that the production of wheat is best promoted by private ownership in land. The same rule applies to the ownership of capital in other forms and to the production of other commodities. Society's first interest is in efficient production, and in the distribution of ownership chiefly as it affects production. As capital is accumulated, the methods of production improved and production increased, it is inevitable that there will be a broad elevation of the economic level upon which society lives, and that all men will have a better opportunity to share in the ownership of productive property.

The Problem of Taxation.

If this reasoning is correct the community should beware how it seizes for current use upon the capital which is certainly destined for the industrial fund. To a very great extent it must be done, but it is not to be done in the spirit of eager confiscation with which in some quarters it is advocated at the present time. It would be folly to seize it upon the theory that the public is really acquiring anything at the expense of the rich owner, for under no conceivable circumstances will the taxation encroach upon the portion of his income which is devoted to his own support. Indeed, the common argument for the seizing of large incomes is that it will involve no sacrifice to the owners. This is true; the sacrifice is from a fund destined to public use, and at the expense of society as a whole in the future.

There is one kind of taxation which is undoubtedly worse than that which would reduce the fund available for investment. This is taxation which would actually deprive people of the common necessaries and comforts, and impair the health and efficiency of the population. This country does not require or desire taxation of this kind, and there is little danger that it will be imposed. But between the funds which are needed for necessaries and the funds which are destined for industrial use there is a great flow of expenditures which may be tapped with the minimum effect upon the country. There is no necessity for extreme or revolutionary taxation. All classes are able to make some contribution and it is desirable that the taxation shall be met to an important degree by reasonable economies, so that the capital resources of the country will not be diminished and that after the war the losses of industrial capital will be made good. The manner of taxation is more important than the haste with which it is imposed. Taxes which bear upon luxuries may be advantageously maintained after the war, and the country can better afford to spread the taxation over a longer period than to heap it up excessively during a few years.

We have referred only to the industrial investment of large incomes, but there are other applications with which the public is familiar, which, while classed as benevolent, are scarcely less constructive and of no less public value. The men of large incomes are usually men gifted with vision and ability to use money in many ways so that far reaching benefits accrue to the public. Such plans and enterprises are outside the scope of governmental efforts, where the use of public funds may be impracticable, as setting precedents which ought not to be established. It is not desirable that the inclination of men of wealth to use their fortunes in such manner should be estopped by taxation deliberately planned to despoil them, and out of all proportion to that levied upon the rest of the community. Their money is bound to go to a public use in any event, and there may be great public gains in allowing them to act upon their own initiative in placing it.

1917

Economic Conditions Governmental Finance United States Securities

NEW YORK, JULY, 1917.

Draft and Loan.

THE two most significant events of the month just closed were, first, the orderly and willing registration of nearly 10,000,000 men of and between the ages of 21 to 30, for the service of the country, as they may be selected and assigned to duty by the government; and, second, the offering of $3,035,226,850 by the people in response to the government's call for subscriptions to an issue of $2,000,000,000 of 3½% bonds.

The registration was accomplished so quietly and readily as to dispose of the idea that any important number of persons were disposed to challenge it, and the loan was a splendid success, not alone in the fact that it was fifty per cent. over-subscribed, but especially in the broad distribution obtained. No less than $1,296,684,850 was subscribed in sums of not over $10,000, and $1,856,787,900 in sums of not over $100,000. Even these remarkable figures do not tell the full story of small contributions, for most of the large subscriptions were made by corporations and the corporations to an important extent are owned by small stockholders.

The precise number of subscribers has not yet been ascertained, but the preliminary announcement indicates that it exceeds 3,000,000, which surpasses the first loan record of any other country. This is exceedingly gratifying, because it gives a glimpse of the great resources behind the government in this struggle. It shows how broad is the support, both of public opinion and of financial resources.

Single loans running into the billions were unknown until this war, and a billion dollars is a sum so unrelated to the ordinary affairs of life as to be almost incomprehensible. After the success of foreign governments in raising billions it was to be expected that the United States could do the same, if the people were aroused to the necessity for individual action, but grave misgivings were felt upon this point. The rate of interest would not in itself make the loan attractive to the average investor in this country, and there was apprehension that the small investor might think any subscription that he could make would be an insignificant factor in a total of such magnitude. The results show that the small subscriptions were very important in the aggregate. Moreover, it was highly important that the loan should have a broad distribution, and be actually taken up out of current earnings, in order to keep the way clear for future offerings. The banks can be of great assistance in distribution, but in financing a great war it is necessary to enlist the co-operation of the entire population, for financing in the last analysis means a shifting of expenditures from peace channels into war channels, and this shift can only be accomplished as the people themselves undertake to curtail their personal expenditures for the purpose of paying money into the Treasury.

British and German Loans.

It is of interest in this connection to review the loans that have been issued by the British and German governments, with the number of subscribers for each.

BRITISH WAR LOANS.

	Approximate Amounts	Number of Subscribers
First war loan	$1,750,000,000	Not stated
Second " "	3,080,000,000	1,100,000
Third " "	5,000,000,000	5,289,000

GERMAN WAR LOANS.

First war loan	$1,120,000,000	1,177,000
Second " "	2,250,000,000	2,691,000
Third " "	3,040,000,000	3,992,000
Fourth " "	2,690,000,000	5,279,000
Fifth " "	2,675,000,000	3,809,000

The best thing about it is the demonstration of the homogenity of our people, and the high degree in which they possess the faculty of organization and co-operation. Every state and sub-division of the states was quickly organized by local effort, a canvass was made which brought home to each person the reasons for and means of participation, and the response was remarkable for its spirit and unanimity. The campaign reached its highest effectiveness on the last day the lists were open, and there is every reason to believe that the experience gained and interest aroused will be turned to good account on the next offering.

It is particularly gratifying that our foreign-born citizens participated in the campaign as heartily as the native-born, and that the communities where the population was largely of German extraction generally made as good a showing as others.

The Allotment.

The Secretary of the Treasury gave notice when the announcement was made that no more than $2,000,000,000 would be accepted under this offering, and the over-subscription therefore necessarily involves a scaling down of subscriptions. From every standpoint it is desirable that this scaling shall be applied to the larger subscriptions, and the Secretary has announced the allotment as follows:

Amount of subscription	Total Subscribed	Per Cent. Allotted	Total Allotted
Up to and including $10,000..	$1,296,684,850	100%	$1,290,684,850
Over $10,000 and up to and incldg $100,000	560,103,050	60% but not less than $10,000	336,061,850
Over $100,000 and up to and incldg $250,000	220,455,600	45% but not less than $60,000	99,205,000
Over $250,000 and up to and incldg $2,000,000 ..	601,514,900	30% but not less than $112,500	184,381,500
Over $2,000,000 and up to and incl. $6,000,000	234,544,300	25% but not less than $600,000	58,661,250
O'r $6,000,000 & up to and incldg $10,000,000 .	46,674,150	21%	9,801,500
$25,000,000	50,000,000	20.22%	10,110,000
$25,250,000	25,250,000	20.17%	5,093.650
Total	$3,035,226,850		$2,000,000,000

The subscriptions by Federal reserve districts compared with the minimum allotment informally prepared by the Treasury department are shown below:

District:	Minimum Allotment	Actual Subscription
New York	$600,000,000	$1,186,788,400
Boston	240,000,000	332,447,600
Philadelphia	140,000,000	232,309,250
Cleveland	180,000,000	286,148,700
Richmond	80,000,000	109,737,100
Atlanta	60,000,000	57,878,550
Chicago	260,000,000	357,195,950
St. Louis	80,000,000	86,134,700
Minneapolis	80,000,000	70,255,600
Kansas City	100,000,000	91,758,850
Dallas	40,000,000	48,948,350
San Francisco	140,000,000	175,623,000
Total..................	$2,000,000,000	$3,035,226,850

As a result of cutting down the large subscriptions the New York district only receives $621,-218,000, or approximately 52 per cent. of the amount applied for.

Following the campaign for the loan, the campaign to raise $100,000,000 for the Red Cross scored another splendid success, with an over-subscription of about 20 per cent., furnishing additional evidence of willingness to meet in ample measure the heavy burdens which the war must entail.

Value of National Unity.

The spirit of unity exhibited in the United States during the past month is the more impressive because of the contrast with the confusion existing in Russia and China. Both of these great nations have seemed to be on the verge of dissolution through sheer want of knowledge of the practical operation of democratic institutions. It is not strange that this knowledge should be wanting with them, for it can be gained only by experience. No theoretical study of principles will give the schooling required to make democracy a working success; the practical touch comes only as men try to live together upon terms of amity and mutual helpfulness, and learn the essential virtues of faith, forbearance and compromise.

The first thing to be learned by all social reformers is that, as a primary condition, reforms must be accomplished without interrupting the daily business of life. When a railroad company wants to replace an old bridge with a new and better one it doesn't tear away the old one to begin with and suspend traffic until the new one is constructed. The old bridge is kept in use until part by part it is transformed into the new one, or until the new one is fully ready to take its place. It is even more important that reforms in our social and political life shall come by gradual change and development.

The Russian people are not without experience in self-government; their village governments have afforded a good degree of preparatory schooling, and it is evident that through the Zemstvos unions and the Duma a very tangible national organization for the expression of the popular will had developed, even before the dynasty was overthrown. Nevertheless, the change from the rule of the Czar to a regime of complete freedom, with an absolutely new book in which to write their will, and with no restraints upon discussion, was a very great change. It is no wonder that there has been confusion of tongues and of purposes; the wonder is that so great a degree of self restraint has been maintained. An American associated with this Bank in Russia in a letter to us says:

> I place a great deal of faith in the Russian people and in their good sense. The days of revolution in Petrograd were wonderful. One thing especially raised my estimation of the Russians even more than the wonderfully well conducted revolution as a whole. In the basement of the building where I lived were stored 8,000 bottles of wines and vodka, the property of the house owner who was very wealthy. The soldiers, common privates, learned of this cellar and poured in there in hundreds. I was absolutely astonished to hear them smashing all of the bottles. Only a few tried to take some away and these were prevented by the rest. This was a revelation when you consider that Russia was before the war the greatest drinking nation on earth. Had not the other stores of wines and vodka in various parts of the city been similarly treated, Petrograd would really have been a city running in blood.

The utmost sympathy for the Russian people in this crisis is felt in this country, and in all the allied countries, mingled of course with concern that the new-found liberty shall not lapse into mere disorganization and anarchy, rendering the nation incapable of constructive effort, and ending, possibly in civil war. Information from the best sources is to the effect that there is no probability of Russia making a separate peace, but that time must be allowed for the new organization to take form and become effective.

Disorganizing Influences.

After all is said that may be in self congratulation upon the spirit of patriotism manifested in this country, the spirit of disorganization shows itself often enough to give us warning that, although kept in check by the practical sense of our people, it is always at work even here, an element of discord which impairs our strength and efficiency.

Freedom of discussion is fundamental in a democracy, but majority rule, and a loyal acceptance of the policies of the government when lawfully determined, are also fundamental. Democracies cannot live and serve their people unless the democratic form of government can be made effective. Liberty doesn't mean the right of a minority to frustrate the will of the majority or weaken the nation's power.

Democracies are efficient according to the intelligence of their people, the unity of purpose among them, and the degree in which they put faith in each other, and are willing to compromise or yield in honest differences of opinion. Where differences occur it is inevitable that there must be compromises or that one side must give way, but when the decision has been made the nation is entitled to have its full strength for action. It is therefore nothing less than treason to counsel defiance of the conscription law or advise against subscriptions to the government loans, and especially so when such influence is exerted by insidious representations that the war has been brought on by secret influences or for unworthy motives. Nothing could so weaken the spirit of unity now necessary to victory as the insinuation, if believed, that this is a class war, brought on by rich men to serve their purposes. The qualifications of a people for self government may be judged by the reception they give to such vile assaults upon their own national honor. There can be no effective national or social organization if every idle and malignant suspicion or rumor affords justification for disloyalty to the organization.

Slanders Against Our Allies.

Next to charges of this character brought against our own people and our own government are to be classed charges equally reckless and untrue against our allies, alleging or insinuating that their purposes are other than what they avow, or that they are not doing their full part in the war. Where there are several allies there is opportunity for disorganizing influences to work by such methods, and the country should be on its guard against them. A Senator of the United States is quoted as recently lending dignity to the charge that Great Britain was holding back her own armies from battle in order that the losses might fall more heavily upon her allies. That contemptible slander had its origin early in the war when England had almost no army, but was imperilling all that it had. We are near enough to Canada to know the efforts which that colony is making for the British cause, and none know better than the Canadians what the armies of England are doing. The casualty lists of all British forces are sufficient to refute such statements. The charge implies treachery to their own colonies and to their own troops who are dying on battle lines, as well as treachery to the Allies. Such statements would be too puerile to be noticed if they did not impose upon the credulity of men who occupy stations of influence, but when given such sanction they become as damaging as reinforcements to the enemy.

Sensational Gossip.

We may pass beyond the statements directly prejudicial to the government and to our allies, and refer also to the very numerous allegations of a sensational nature, the effect of which is to impair mutual confidence and create dissension. A Senator speaking from his desk in the Senate said recently that he understood the profits of each of the two leading beef-packing establishments last year amounted to $125,000,000, and the telegraph spread the statement in the newspapers of the country the next morning. Now the reports of the two leading beef-packing companies for their last business year, had been printed, distributed to their thousands of stockholders and summarized in the financial columns of the newspapers. The information was easily accessible, and the facts are that the profits of the concerns referred to were scarcely one-sixth of the sum stated. No doubt the Senator was misled, but the effects were the same. His case is only an example of others in high places and deplorably numerous. This is no time for responsible men to give currency to irresponsible statements which are certain to create ill-feeling. The fact that a speaker is attacking what he believes to be an evil, is no justification for misrepresentation. The first step in dealing with any condition is to learn the real facts about it.

The same comment may be applied to a vast amount of criticism directed at the government itself, including Congress. It is no time for recrimination and reckless speech, which undermines the confidence of our people in their government and in each other. It is a time when an obligation rests upon every one to inform himself upon

what he is talking about, and to give his influence for national unity and effectiveness instead of for disorganization.

In one of the darkest periods of the Civil War Mr. C. C. Bond, a Chicago lawyer of high character and a friend of President Lincoln, being in Washington, called upon the President. Immediately after the greeting the latter said, "Tell me, what do the people in Illinois say about this war?" Mr. Bond replied:

"Mr. President, you remember the American House at Ottawa?" (The Supreme Court of Illinois then held sessions at Ottawa.) "I was down there last week and in the hotel office found people in groups discussing the war. I approached one group where a man was gesticulating and talking in a loud voice about gold being 210 and the country going to the devil. I saw a young man with an eager, intelligent face turn on the speaker and say, 'Gold! What do you know about gold? I don't believe you ever saw any; I don't believe you have got a dollar on you now. To Hell with gold? Pitch in and help win this war, and save the country!' Mr. President, I think that is about the way the people of Illinois feel."

Community Interest in Efficiency.

The enormous strain upon all our productive resources at this time, and the loss to all where any industry fails to meet the demands upon it, offer a convincing lesson of the community interest in efficiency everywhere. It is obvious enough now, but we have not been accustomed to recognize it, or at least to act upon it. If an individual was inefficient, we have simply assumed that it was his own fault and his own loss, and of small concern to anybody else, although the whole community suffered by his failure to contribute as he might to the common welfare. It is more than possible that great permanent benefits will result from the co-operative efforts that are now being put forth to meet the war emergency.

The work that county committees are doing, surveying agricultural conditions, finding out precisely what help each farmer is needing, if he needs any, studying local resources and planning for increased production, is work that ought never to cease. These committees should never be discharged. They should be connected up with all the other commercial and social organizations so as to be representative bodies through which all the energizing and constructive forces of the community can work. The county agent is a functionary who has suddenly assumed great importance. The Agricultural Commission of the American Bankers' Association has adopted the slogan "A County Agent for Every Agricultural County," and it should have the co-operation of all bankers until that objective is reached. The county agent is an effective instrument in the hands of a county committee composed of leading business men, and his influence can be multiplied many times over by having such a committee behind him.

Our correspondence with local bankers in recent weeks has brought out many interesting suggestions. The Bank of Salem, Indiana, wrote:

We have made arrangements to test all the seed corn used this spring at our local high school, and to increase the acreage of corn possibly 7,000 to 10,000 acres. And with the seed tested and favorable weather we will increase our corn crop over 1,000,000 bushels.

The idea of correlating the work of the schools to the productive work of the community has great possibilities in it.

The Parkersburg National Bank, West Virginia, says:

In this county, we have an Agricultural Agent and his work among the boys and girls has been very successful. Our bank co-operates with this agent and gives yearly prizes in money. Last year there was inaugurated a pig club, in which the bank agreed to take the boys' notes for the year in payment of the pigs. There were seventeen members last year and sixteen pigs were brought to town, for show, in the fall. This year there will be sixty in the club.

The First National Bank of Las Vegas, New Mexico, writes:

For the last two years, two of the largest wholesale houses here, The Charles Ilfeld Co., and Gross-Kelly & Co., the San Miguel National Bank and our own bank have formed what we call the Inter-County Seed Distributing Company. We four have advanced equal funds and bought seed which we have furnished to all the farmers in the counties of San Miguel, Mora and Guadalupe, that desired them. These seeds were furnished to them without any cash payment, taking their notes, payable at the end of the harvest time with the rate of interest at 6%. This has enabled us to increase the land put under cultivation in these three counties by over 100%.

We have found it a very satisfactory means of helping our people and have also found it to our benefit, as the crops raised have in turn brought in considerable foreign money, and has made our country more prosperous for the past year than it has ever been before in our history.

The Stone-Ordean-Wells Company, wholesale grocers, Duluth, is carrying on an interesting experiment for supplying its employes with food products. It has rented an 80 acre farm, and enlisted its employes to do the farm work. The Treasurer of the company writes us as follows:

They (the employes) will do the major portion of the work involved, and divide the crop produced on the basis of per capita enlisted. I am studying and watching this community farm with a great deal of interest, believing that it will be of advantage to our men, of advantage to our organization and general advantage to the community and the conditions that have confronted the public for the past year or more. It is only one of many steps that might be taken in the same direction.

Food Distribution.

The question of providing cheaper food for their employes is interesting the managers of industry as never before. It has been driven home to them in the last few years that an increase of wages is easily nullified by an advance

of living costs, and it is apparent that the cost of many foodstuffs to the consumer is out of all proportion to what the producer receives for them. In the case of perishable products, such as fruit and vegetables, the actual waste by decay and condemnation, and because of glutted markets, is a disgrace to us as a people. It is unnecessary and occurs simply because the problem of distribution has never been attacked in comprehensive fashion. It is still an unorganized business, in about the same state it was fifty years ago, except that as the volume becomes greater the confusion, expense and waste increase.

The Baird Hardware Company of Gainesville, Florida, under date May 26th write us as follows:

> We fear that the National Government, and probably yourselves, are not familiar with Florida conditions. We are growing garden crops to perfection. In forty days after planting, we can usually begin shipping nearly anything in that line, but this locality does not produce sufficient corn or crops that can be saved to take care of its own requirements.
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> At this moment we have ready for shipment beans, cucumbers, beets, carrots, eggplant, tomatoes, world without end, and it is utterly out of the question to get hampers in sufficient quantities to move more than 20% of the crop that is already made. The Agricultural Department has had people here urging us to plant gardens. We have always had more gardens than we knew what to do with.

A representative of this bank in Texas sent us a clipping from the Dallas *News* of May 14th which shows the situation in garden products there at that time. It says:

> A meeting of all commercial truck growers and farmers who have planted extensive acreage in food crops has been called by C. O. Moser, county agent, for this morning at 10 o'clock at the Chamber of Commerce and Manufacturers' Association Building for the purpose of discussing means of relieving the truck grower from existing conditions.
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> The called meeting is the outgrowth of a concerted demand by growers that some action be taken to afford them a market for the products they have raised to meet the need for food.
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> Many growers besieged the Chamber of Commerce yesterday, demanding that something be done to afford them a sale for their products. D. L. Wier, a truck grower, said the vegetables grown are worth more at present as fertilizer than they are on the market.
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> "I brought a load to town yesterday morning worth at least $10 on a wholesale basis and I sold 60c. worth of it. The remainder I carried home and fed to my stock."
>
> One farmer called for John R. Babcock, assistant to the president of the Chamber of Commerce, who was out. He told the person who answered the telephone that he had a wagon load of fresh vegetables which he wanted to give Mr. Babcock to avoid wasting them by throwing them away.

This was at a time when vegetables were still luxuries throughout the north, and were being brought in train-loads through Texas from California. It is evident that the problem of distributing food stuffs is directly related to the general industrial situation, and entitled to the attention of the best business brains in the country.

Industrial Efficiency.

A well known engineer who is an expert in industrial practice has recently gone on record with the opinion that the industries of the United States on an average are not realizing over 20 per cent. of their possible capacity.

This is a startling statement. If it is true we have enough productive capacity unused to radically change the living conditions of our people. The amount involved in our wage controversies is insignificant in comparison. The war debts would cease to be a problem if these savings could be realized, and capital for revolutionary developments in industry would be quickly available. He says that we have scarcely begun to appreciate the gains that are possible under more effective organization. Comparing the United States and Germany, he says:

> During a visit of a body of engineers to Germany in the summer of 1913, to study the industrial conditions in that country, many of us were convinced that not only was the individual efficiency of the American greater than that of the German, but in many cases the amount of work produced per dollar of wages paid to the American workman was even greater, although the wage rate in this country was at least 30 per cent. higher than that in Germany.
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> In spite of this, the collective or co-operative efficiency of the Germans was evidently enormously greater than that of Americans. The German Government not only encouraged co-operation, but actually forced it; while we, actuated by an antique theory of democracy, not only encouraged individualism, but did all we could to insist upon it, with the result that much of the energy of our community was being dissipated in internal friction.

What he says is confirmed by the policy adopted by the government commissions at Washington. In their efforts to obtain greater efficiency in the industries they have practically suspended the operation of the Sherman anti-trust law. The Supreme Court is said to have concluded not to decide until after the war whether the United States Steel Corporation and the International Harvester Company are organizations in violation of law or not, and meanwhile all the government departments and commissions are urging the industries in all lines to get together and accomplish the economies which the Steel Corporation and the International Harvester were organized to accomplish. This is advantageous no doubt, but the most economical industrial methods should be employed in time of peace as well as in time of war.

The suits against the Steel Corporation and the Harvester Company are prosecuted upon the theory that these concerns are so large as to have it in their power to crush competition and oppress the public, but the lower courts have acquitted both companies of any

such policy. The law officers of the Government claim that it is enough that when the companies were organized they possessed such powers, that objectionable use does not need to be proven; and in one case the lower court has sustained this view.

The government is convicted by its own testimony. The responsibility is not personal, and the various branches of the government are not responsible for each other, but the common sense of the public will expect the government, including the Congress, in the long run to bring its various activities into harmony with each other and into harmony with sound economic policy. If, by cooperation and combination, economies can be accomplished so great that the government is justified in putting that policy into force by arbitrary authority in time of war, it should be possible to accomplish them in time of peace, and the law should be modified to that end, while continuing to protect the public from the abuse of power. In other words, the law should be clearly directed at unfair practices rather than at mere size. At present, if the interpretation of the prosecuting officials is correct, it is wholly repressive.

Price Regulation.

The discussion over the various proposals to regulate prices gets into difficulties when it reaches the details. What are fair prices and fair profits? A percentage basis is usually assumed to be the best determination, but that ignores all differences in costs and efficiency among producers. General Goethals is said to have rejected that basis of compensation for shipbuilders because it is unscientific and extravagant. Under it, the higher the costs the larger the profits.

It is a recognized principle among economists that the price of a commodity at any given time tends to be fixed at a level where it will afford a working profit upon that portion of the market requirement which is produced at the highest cost. There may be, for instance, a wide range of costs in producing and delivering wheat at a certain market, resulting from differences in distance from market, fertility of soil, efficiency of the producers, etc. The price is the same for all wheat, and must be high enough to induce the continued production of the highest-cost portion of the required supply, but as the supply is increased from low-cost sources, production on the margin of the supply is no longer required, the price falls, and the high-cost producer is eliminated.

The same thing occurs in all lines. There is a range of costs, depending on the location of the producer, the character of his equipment, efficiency of management, etc. One producer may be up-to-date in methods and equipment, perhaps the last in the field, or he may have turned earnings back into improvements, while another has chosen to distribute earnings in dividends with the result that the former has lower operating costs than the latter and correspondingly higher profits when they sell at the same price. That is his reward for being progressive and constitutes the inducement to progress. The constant tendency in industry is toward improvement, lower costs, and the elimination of the high-cost producers. The leaders make the best profits, but all improvements soon become common property, and new leaders are always making the pace.

In a time like this every possible source of supply is brought into use. In the iron business, scores of old, abandoned furnaces and mills have been refitted at much expense and put into operation upon a basis of costs which would have been prohibitory at any other time in the last thirty years, and when the war is over they will be abandoned again. For the time being, however, they are needed, and prices must be high enough to allow them to work.

Costs and Profits.

The same is true in other lines. There are great differences in the costs of mining coal, and corresponding differences in profits. As a general rule in the manufacturing industries the fact that a producer enjoys unusual profits is proof, not that he is extortionate in his selling policies, but that he is a leader in low cost production, and therefore rendering a greater public service than a competitor whose profits are less.

If it is true that our industries are far below their possible output, and that not only industrial but living conditions may be revolutionized by bringing the average up to the level of the best, the public cannot afford to discriminate against efficiency, in its plans for taxation or regulation. Allowance, indeed, must be made for war conditions and necessities; taxation cannot be scrutinized as critically in all its bearings as in time of peace; it is true that in time of great national peril the government must look for money where money is, and that war-time profits are not to be judged on just the same basis as peace-time profits. But it is well to keep an understanding of sound principles even when they must be compromised, and this is particularly true in view of the certainty that the same kind of taxes will be advocated for permanent adoption. A graded scale of taxation, increasing with the percentage of profit in industry, is unsound in principle, because it puts a handicap instead of a premium upon leadership, and penalizes the very methods which the public is interested in having adopted. It is neither just nor according to sound public policy to deny to the efficient producer the difference between his costs and those

of the less economical producers in the same line, but a temporary system of even graduated taxation upon profits is preferable for its simplicity to a complicated system of government price fixing.

High Prices and Production.

High prices are never welcome to those who have to pay them, but it is a great mistake to consider only their immediate and uncomfortable effects, without regard to the conditions which caused them or the part which high prices play in correcting those conditions. High prices are a sign of scarcity, the only real remedy for scarcity is increased production and no other agency is so directly effective in stimulating production as high prices. They not only create an inducement but they supply the means of enlarging the productive operations.

Efforts to increase production now, in every line, must be made upon a level of costs that is temporary and abnormal. It is possible to largely increase the winter wheat acreage this fall, but the farmer must make an outlay for seed, labor and machinery possibly one hundred per cent. above normal costs, and take the chance of prices a year from now. He must risk his investment, perhaps go in debt to do it, but we want it done. Any attempt to regulate wheat prices which deters producers from enlarging the area in cultivation will defeat the very purpose in view.

The manufacturer is in the same situation. Much is said of the large nominal profits of 1916, but it is not always understood that they went largely back into the properties. And so, if production is to be increased, the profits of 1917 must be liberally used to the same purpose, upon a scale of costs far above normal. The real value of these profits put back into the industries cannot be told until it is known what the new facilities are worth in normal times.

The Bethlehem Steel Company is an example of a concern which has profited largely by war business, but more than the total of such profits has been put into increase of capacity, and that new capacity for steel and ships is precisely what the country most needs at this time. Our interest at the moment is in having the war conducted with the greatest possible vigor, for if the end can be hastened we will not only save money but save lives. After the war the replacement value of Bethlehem's new capacity probably will not be one-half its book cost.

The level of prices has been affected the world over by war conditions to such an extent that price figures no longer have the meanings with which we are familiar, but most discussion is based on comparisons with old standards. Prices are high or low according to their relation to other prices. The entire table of commodity prices is full of inter-relations, changing constantly. A leading agricultural journal presents figures to show that even at the very high price of $16 per hundred weight for hogs the farmer is not getting the present market price for the corn they have consumed. In the same manner the prices of the manufacturer's product are related to the prices of materials, supplies and labor entering into it.

At a time when demand exceeds supply prices are a natural method of regulating consumption and of diverting demands to every possible substitute. The leading statisticians of the grain trade are agreed that the high prices of wheat during the past year have reduced consumption in the United States by about 50,000,000 bushels as compared with the year before. This does not mean that people went hungry, but that consumption was shifted to other foods less affected by the European demand.

Again, rising prices perform a function in inducing more economical consumption. The paper situation is aggravated by the shortage of labor to cut wood. Not enough paper is being made to go around, but the use of cheap print paper has been profuse in this country. While there is serious hardship to publishers in the sudden increase of price, the fact seems to be that there must be a curtailment of consumption somewhere, and that is being accomplished by curtailing free newspaper circulation, by consolidation, etc. Along with an arbitrary system of price-regulation there would have to be an arbitrary system of distribution to determine who should have the goods which might be even more unsatisfactory in many cases than to let high prices work out their effect.

It cannot be too often repeated that in time of scarcity the emphasis is not upon prices but upon production, and policies should center upon the latter, affording inducement and stimulus, and avoiding the creation of risks and deterrents.

Financial Affairs.

The money market has been having unparallelled demands upon it during the last month, but with the help of the facilities of the Federal reserve system they have been met with scarcely noteworthy disturbance. Income taxes and payments upon the government loans made the transfers from the banks to the government very large and the pending mid-year interest and dividend payments have caused a temporary tie-up of funds. Finally, the continued rise of prices has made more money and bank credit necessary to handle the country's trade and the slow deliveries of freight have increased the volume of open transactions and accentuated the situation. As a result of this combination of demands, the reserves of the New York clearing house banks fell to the lowest percentage reached since the Federal reserve act went into effect, to wit:

$41,827,230, with $128,000,000 of Treasury deposits, against which reserves are not required.* To keep the money market steady the banks have availed themselves freely of their privileges at the Federal reserve bank. The "bills on hand" of the latter institution were $35,431,000 on June 1st and $220,032,000 on June 22nd. The grand total of "bills on hand" of the twelve Federal banks was $154,964,000 on June 1st and $435,287,000 on June 22nd.

The situation was also supported by the timely resumption of gold shipments from Ottawa, aggregating approximately $100,000,000 between the 15th and the 28th. This was pursuant to the well known purpose of the British authorities to contribute gold from time to time as needed to stabilize this money market, and aid it in carrying the heavy volume of credits which this country has undertaken to grant for the prosecution of the war.

Money has been in ready and ample supply to take care of the usual needs, but rates have been higher. For time money a 6 per cent. rate was established until after the payments on the government loan on the 28th were completed, since when there has been an easier tendency, ranging from 6 down to 5. The call market has ranged from 4 to 6 per cent., closing the month at 4 to 4½.

Although under the terms of the Liberty Loan only 20 per cent. was required to be paid up to this time, a much larger proportion has been paid. In fact, in the New York district 85 per cent. of the full amount has been paid into the Treasury, although a large share of these payments represent money advanced by the banks upon the security of the bonds. In other words, the subscribers have borrowed of the banks, and the banks have made payment to the Treasury, largely in the Treasury certificates of indebtedness. The exact figures of payments in this district to and including June 28th are $146,902,280 in cash and $403,128,000 in Treasury certificates, a total of $550,030,280 upon the total allotment of $621,218,600.

The Clearing House statement of June 30th reflected the operations of the week by showing an increase of $115,317,000 in loans, of $63,995,000 in reserves and of $62,987,000 in surplus reserves. Treasury deposits rose from $128,067,000 to $325,076,000. The gain in the reserve surplus was due to the fact that the increase in loans represented payments to the government, which were re-deposited and did not require legal reserves.

With these Liberty loan payments, and the other financing incidental to the midyear settlements out of the way the market can look forward to several months of routine conditions, when the tendency should be toward liquidation and comparative ease, although cheap money is not likely to be seen in New York again until the war is over.

* Clearing House statement June 23rd.

A new factor in the situation is borrowing by railroads to finance their pressing needs for supplies and equipment. The bond market is so unfavorable that they cannot afford to offer long time securities, and are obliged to resort to banking accommodations.

Federal Reserve Amendments.

The long pending amendments to the Federal reserve act have been adopted, and have gone into effect. Nothing now counts as legal reserve for a member bank but a credit at the Federal reserve bank of its district. For the banks in the three central reserve cities the required reserves against demand deposits are reduced from 18 per cent. to 13, for the reserve cities they are reduced from 15 to 10, and for all other members they are reduced from 12 to 7. These reductions are made because the banks will still be obliged to carry for their own convenience as counter cash sums equal approximately to the amount of the reductions. Since, however, cash in vault will no longer count as legal reserve, the banks will be naturally inclined to keep only what is necessary and forward the balance to the reserve bank, and it is expected that a very important further concentration of gold in the reserve banks will result. It is calculated that these banks will gain over $300,000,000 from this source, and further gains are anticipated by the accessions of state banks to the system. Moreover, as there will be less reason for member banks to hold on to gold certificates than heretofore, it is believed that they will co-operate to withdraw gold certificates from circulation, forwarding them to the reserve banks, and substituting Federal reserve notes in circulation. If the banks will join in this movement several hundred millions more can be added to the gold reserves of the system. It is very desirable that this be done.

The much vexed check controversy ended in victory to the Federal reserve board, whose authority over exchange charges is confirmed.

It is expected that reserve bank branches will be established at an early day at Baltimore, Louisville, Seattle or Portland and perhaps Spokane.

The supreme court of the United States has sustained the provision of the federal reserve act which authorizes national banks to perform the functions of trustees in all states.

Growth of Reserve System.

When the Federal reserve system was inaugurated in November, 1914, the member banks were given three years in which to transfer their out-of-town reserves to the new banks, therefore the last transfer was not due until November next. By the new reserve provisions this transfer is required at once, but the reserve board has given notice that no penalties for reserve deficiencies will be imposed until after July 15th. The transfer, however, is now practically complete.

The growth of the Federal reserve system is shown by the following consolidated table of the principal items of the statement for the twelve banks, on the dates named.

	Jan. 8, 1915	Jan. 7, 1916	June 22, 1917
Total gold reserve*	$232,553,000	$354,418,000	$813,252,000
Total cash reserve*	250,550,000	367,306,000	848,932,000
Cash reserve with agent	14,676,000	199,690,000	390,765,000
All earning assets	16,343,000	89,410,000	552,649,000
Member bank reserves	267,389,000	407,244,000	806,209,000
Government deposits	....	15,101,000	495,807,000
Federal reserve notes in circulation	16,530,000	188,516,000	499,721,000

New York Clearing House Banks.

We give below the figures for the principal items of the statement of the New York Clearing House banks, at dates named:

	Jan. 9, 1915	Jan. 8, 1916	June 23, 1917
Loans	$2,184,206,000	$3,254,190,000	$3,813,611,000
Net demand deposits	2,017,084,000	3,311,220,000	3,439,596,000
Cash reserve	337,582,000	503,679,000	295,111,000
Reserve in depositories	132,972,000	223,749,000	333,752,000
Total reserve	470,554,000	727,428,000	628,863,000
Surplus reserve	120,579,810	153,822,260	41,827,230

It will be seen that if the cash holdings of the Federal reserve bank of New York as reported in its statement for January 8, 1915, be added to the cash holdings of the New York Clearing House banks on January 9, 1915, the total is $424,585,000, while on June 22, 1917, the aggregate cash holdings of the same institutions, including the reserve bank's share of the gold settlement fund at Washington, and its gold with foreign agencies, was $711,983,000, a gain of $287,398,000. But between these dates more than $1,600,000,000 was imported at New York from foreign countries. This goes to show how mistaken is the view sometimes expressed that New York has profited more than other sections of the country by these importations and the great volume of business which occasioned them. These gold importations have come in payment for the products of the country. They have represented immense purchases, at high prices, of grain, meat, horses, copper, silver, iron, and a great variety of things. Every section has had its share, as the growth of bank deposits and bank cash will show.

General Business Conditions.

General business conditions must be considered to have improved in the last month, although strikes in the copper industry, with a demand for $1.00 per hour and a six hour day, sound like an echo from Russia. The most important feature of the business situation just now is the satisfactory progress being made by the crops. Although they had a late start, on the whole the outlook for all crops has seldom been better on July 1st than it is now. There are few spots in the country at this writing where a good yield is not promised. If the promise is realized we should have lower food prices during the coming year than in the year past, and no other single factor could be so helpful and reassuring in the industrial situation.

* The reserve in hands of the agent on June 22 should be added to the figures of gold and cash reserves to obtain the totals.

The volume of business is enormous, and on the whole increasing. The reactionary symptoms which have been noted in some quarters merely represent a shifting of activity. May building permits in principal cities fell off over 30 per cent. as compared with May of last year, but inability to get steel and other materials had more to do with it than even the high cost of materials. The automobile business has been unfavorably affected, but the truck business has been greatly stimulated and aeroplane construction will give work to many shops. The falling off in the demand for sheet steel for automobiles has relieved the tin can manufacturers and canning industry from threatened shortage.

The government requirements in the steel industry are seriously interfering with private business and have caused insistent bidding for pig iron and steel at prices that have seemed to have no limit. The spectacular figures are given more importance than they deserve, as they relate to early deliveries and apply to a comparatively small volume of business. The steel mills are so completely sold up that there is but little product or capacity available, and the consumer who is trying to break in for early accommodation has a hard time in getting his wants supplied at any price. He and others like him make the prices by bidding against each other, and in desperate efforts to find some manufacturer who can be tempted to push lower-priced work to one side to serve them. The producers of steel, oil, coal and copper have been on tenter-hooks over the price situation at Washington, which has gotten beyond the question of prices upon this government's own supplies, and now includes prices upon supplies for foreign governments and the general market.

The Railroads.

The Federal Trade Commission perpetrated a surprise by submitting a recommendation that the government take over the railroads and operate them. The advantages of coordinate operations are already secured by the organization of the roads under the management of a committee of the most experienced railroad men in the country and as the Trade Commission does not propose to substitute government management it is not evident how gains would be accomplished.

As a matter of fact traffic conditions are much improved, although still far from satisfactory. The output of the country's industries has been rapidly increasing while the physical capacity of the railroads is practically, for the time, at a limit. Notwithstanding the fact that traffic cannot be handled to the best advantage when the terminals are congested and tracks are overcrowded, the volume of freight is much above

all past records. The earnings are proof of this, as freight rates are no higher than a year ago. Furthermore, these higher earnings are made on a higher proportion of low class freight. The roads handled 24 per cent. more coal in May than in the same month of last year, and the traffic last year was the largest on record. A showing of this kind is not one of incompetency or failure. The principal railroads have expended enormous sums in the last fifteen years in the enlargement of their facilities, but the expansion of the country's business has outrun all calculations.

Nobody questions that the railroad situation is critical. It is more critical than most of the critics know. They easily throw the blame on the railroad managers, but the latter, who have been facing rising costs on the one hand and an unfavorable money market on the other, have been up against the real problem. The railroad situation has needed to be treated on a very large scale, and railroad managers have not had the money to do more than they have done.

The Inter-State Commerce Commission has denied the petition for high freight rates on the ground that earnings have improved in recent months and that the need for the requested advance is not demonstrated. The decision says that if net earnings had continued on the basis of February, higher rates would have been necessary. Certain advances are allowed in eastern territory, but the horizontal increase is suspended until October 28th, with the intimation that if the situation becomes more unfavorable the case will be considered again.

Inland Water Transportation.

In view of the enormous pressure upon the railways at this time, the Advisory Commission of the Council of National Defense has caused to be organized a Committee upon Inland Water Transportation, to develop so far as practicable an immediate use of the waterways which can be utilized. The Committee as at present constituted consists of Gen. W. M. Black, Chief of Engineering, United States Army; George E. Bartol, Philadelphia; Capt. J. F. Ellison, Cincinnati; Joy Morton, Chicago; J. E. Smith, St. Louis; Walter S. Dickey, Kansas City, and M. J. Sanders, New Orleans. Other appointments are to be made, but the Committee organized temporarily by electing Mr. Dickey as Chairman, and Colonel Keller, of the U. S. Engineers, representing Gen. Black, as Secretary.

The Committee has begun with steps to organize for the movement of freight on the Mississippi River and its tributaries and on the New York barge canal. A traffic manager for the Mississippi River has been engaged, and the co-operation of the important cities is being solicited for the support of barge lines between New Orleans, St. Louis, and the Twin Cities. The War Department has placed at the command of the public in this locality a fleet of 12 steel barges, of 650 tons displacement each, together with two towboats, and in conjunction with the St. Louis Chamber of Commerce is negotiating to use this fleet for carrying coal from the Illinois fields to the Twin Cities and iron ore as return freight to St. Louis. Heretofore these materials have not been carried commercially upon the upper Mississippi River, the efforts therefore constitute a new departure and there are many practical difficulties which must be overcome before the movement of freight can actually start. It is believed, however, that the plans are approaching a successful culmination. The Committee has established an agency at Cincinnati for the purpose of promoting the commercial use of the Ohio and Tennessee River, and will soon have an experienced traffic man in that field to go over the territory and aid in the preparation of such plans as seem advisable in the light of information gained.

Another member of the Committee has been engaged in investigations in regard to stimulating the use of the New York State barge canal and of various sections of the intracoastal route. Plans for boats are under way, and the co-operation of the government is hoped for in securing their speedy construction.

The studies of the committee have developed many difficulties which must be remedied before water transportation can be successfully maintained. These include marine insurance, towage, suitable terminals, etc. The attitude of the railroads toward competing water lines has been the subject of much discussion, and the Executive Committee of the Special Committee of the American Railway Association has issued the following statement to all railroads:—

> "The position of the railroads regarding commercial transportation on the navigable waters of the United States is that they will welcome any practicable water transportation and are prepared to co-operate cordially with responsible persons or corporations who may provide such water transportation, by the exchange of traffic, the assurance of joint through bills of lading, and, if necessary, where conditions justify it, by joining the water carriers in the building of tracks to connect the railroads with the wharves and landings of water carriers."

This statement has been extensively circulated and will undoubtedly serve to allay the fear of some who might otherwise hesitate to divert business to the waterways.

Chairman Daniel Willard of the Advisory Commission to the Council of National Defense, at the first meeting, said:

> "The railroads of the United States, operated as one system, are carrying more freight than ever before in the history of the country, but when they have carried traffic up to 100 per cent. of their capacity there still remains 15, 25, perhaps 30, per cent. of traffic which it is impossible for them to carry at all. When conditions are normal again, I suppose we shall be competing for traffic the same

STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS JUNE 29, 1917.

(In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas. City	Dallas	S. Fr'sco	Total
Gold coin and certificates in vault	29,952	[illegible]	30,169	23,938	6,353	7,731	40,801	11,407	14,092	8,419	10,000	15,036	484,244
Gold Settlement Fund	47.357	34,902	31,095	49.229	25,084	5,557	45.652	20.617	15.192	30.582	17,500	23,078	345,345
Gold with foreign agencies	3,675	18.312	3.675	4.725	1.837	1,500	7.350	2,100	2,100	2,500	1.838	2,750	[illegible]
Total gold held by banks	80,984	[illegible]	64,939	77,892	33,274	14,788	93,803	34,124	31,384	41,501	29,338	40,864	882,471
Gold with Federal Reserve Agents	22,460	139.252	[illegible]	34,428	7,372	16,320	[illegible]	9,472	21,576	14.830	16,986	24,388	[illegible]
Gold Redemption Fund	500	5.250	450	49	755	272	226	196	208	1,331	143	22	9.402
Total gold reserves	103,944	[illegible]	98,995	112,369	41,401	31,380	156,032	43,792	53,168	57,662	46,467	65,274	1,294,586
Legal tender notes, Silver, etc.	2,520	26,534	1,285	308	198	645	3.447	3.358	114	208	1,083	140	39,840
Total Reserves	106.464	510.616	100.280	112.677	41 599	[illegible]	159.479	47 150	53.282	57,870	47.550	65.414	1.334,406
Bills discounted, Members	18 773	78 122	22.334	9.353	12,042	3.735	18,118	5 713	10,189	5 570	4,282	8.981	197,242
Bills bought in open mark't	16.411	102.587	9.087	11.133	5.868	1,850	28.923	5,471	1.449	11.837	623	7.031	202.270
Total bills on hand	35,184	180,709	31,421	[illegible]	17,910	[illegible]	47,041	11,184	11.638	17,407	4,905	16,012	399,512
U. S. Governm't long-term securities	530	1.306	549	5,853	1,152	698	7,007	2,233	1.857	8,842	3,970	2,429	38,426
U S Governm't short-term securities	2.194	5,294	2.548	[illegible]	[illegible]	3,015	2,985	1.444	1,420	4,284	1,430	5,828	34,302
Municipal Warrants		356	158	1,268	15	1	152	212		51	20	208	2,446
Loans on gold coin and bullion		21 850											
Total Earning Assets	37.908	209,525	[illegible]	29 508	21.046	9,319	57,185	15,073	14,915	30.584	10,325	24,472	494,536
Due fr. other F. R. Bks. net	2.069		3.323	1.046	1,423	5.212	9.845			2.436	555	3,649	a 1,448
Uncollected items	16.924	42.197	25,915	17,229	11,090	10,558	44.737	13,609	6,794	11.829	6,256	14,477	221,705
Total deductions from gross deposits	[illegible]	42,197	[illegible]	18,275	12,513	15,770	[illegible]	13,699	6,794	14,265	6,811	18,126	223,153
5% redemption fund—F. R. bank notes										400	100		500
All other resources					118	40	[illegible]			40	[illegible]		[illegible]
TOTAL RESOURCES	163.361	762.338	164.194	160 460	75,276	57,154	271.614	75.922	74,991	103.159	65,019	108,012	2,053.394
LIABILITIES													
Capital Paid in	5 112	12 063	5,270	6.247	[illegible]	2.389	7,062	3.243	2.469	3,168	2,755	[illegible]	57,176
Government Deposits	45,694	31,924	40,154	17,254	12.315	[illegible]	[illegible]	9,272	14,559	13,547	16,274	[illegible]	[illegible]
Due to members - reserve account	75.727	442.007	[illegible]	[illegible]	[illegible]	[illegible]	127 475	36.812	29,154	53,419	[illegible]	43,805	1.033,460
Collection items	12 041	40 553	24,597	13.025	9,547	6,640	15,315	8 142	5,053	6,748	3,520	4,346	149,527
Due to other F. R. Bk's net		26 894						1.212					
Total Gross Deposits	[illegible]	541,378	118,960	[illegible]	55,056	35,918	202,818	53,438	48,760	73,714	43,164	82,150	1,483,953
F. R. Notes in actual circulation	[illegible]	207,172	[illegible]	32,916	16,784	18,847	61,734	17,237	23 712	25,343	[illegible]	21,728	508,807
F. R. Bank Notes in circulation net liability										934			[illegible]
All other Liabilities incl. Foreign Govern't credits	257	1.725	260	62				4	44			172	2,524
TOTAL LIABILITIES	[illegible]	762.338	164.194	[illegible]	75 276	57.154	271.614	75.922	74,991	103.159	65.019	108,012	2,053.394

(a) Total Reserve notes in circulation, 506,807

(b) Difference between net amounts due from and net amounts due to other Federal Reserve Banks, 1,448: The Gold Reserve against net deposit Liabilities is 69.9%; Gold and lawful money reserve against net deposit liabilities 73.1%. Gold Reserve against Federal Reserve Notes in actual circulation, 81 0%.

(c) Bills discounted and bought; municipal warrants: 1—15 days 172,174; 16—30 days 54,886; 31—60 days 91,472; 61—90 days 71,466; over 90 days 4.930. Total 401,968.

as we have done in the past, but I can assure you that so long as the war lasts, the railroads of the United States will co-operate to the fullest possible extent with the waterways of the country in order that the needs of the country may be served."

The conditions are far more favorable for giving a profitable volume of business to water carriers than ever before, and results of permanent benefit may come from this effort. The interest and co-operation of shippers is invited.

Bond Market Conditions.

The general bond market has been in a state of lethargy, due to the absorption of all interest in the Liberty Loan. The prices of the outstanding United States issues naturally have been depressed, and particularly those not possessing the circulation privilege. A few days before our declaration of war the Panama 3s sold as high as 103¼ and sales have since been made as low as 87. This is mainly because these bonds do not, like the Liberty Loan, have the privilege of conversion into any issue of higher rate which may be offered. The profits upon bank circulation based upon either the 2s or 4s are the highest they have ever been, being about $1,800 and $1,300 respectively on every $100,000 of circulation issued.

THE NATIONAL CITY BANK OF NEW YORK

1917

Economic Conditions
Governmental Finance
United States Securities

NEW YORK, AUGUST, 1917.

The War.

THE situation in Russia continues to afford an object lesson in social philosophy and evolution. In the absence of an effective government the aggressive movement gallantly led by Kerensky, failed of support, and the influences for disintegration again obtained the upper hand. The situation has been extremely critical, but in the last extremity history repeats itself. The common sense of a people recognizes sooner or later that there must be order and government in society; and when wrangling assemblies do nothing public opinion turns instinctively to some one man strong enough to be the leader and to dominate the situation. In this manner society evolved its primitive forms of government, and in the presence of anarchy it goes back to first principles. It is an informal choice, and the powers granted, or assumed, are sweeping. Theories of individual equality are laid aside, and yet the principle of action is fundamentally sound, for the purpose is to obtain unity in the state. If there is no escape from anarchy except by a Dictator the most democratic society will choose the latter. The will of one man leading to action is preferred to interminable debate while the nation drifts to ruin. If the man chosen can command the confidence and support of the country, and has the qualities for the emergency, disorder and treason will be suppressed and the nation will be united to face the perils which threaten it. The friends of democratic Russia will look anxiously on to see whether Kerensky is able to accomplish the stupendous task which seems to depend upon him.

Meanwhile, in this country, the I. W. W., an organization professing devotion to industrial democracy, has succeeded in precipitating several communities into a state of chaos similar to that existing in Russia. Industrial democracy, like political democracy, is a very desirable thing to work for in a constructive manner. Nothing can keep the masses of any country from such participation in both the political and industrial management as they are qualified to exercise to their own advantage, but the leadership of the I. W. W. in industry would be just about as effective as the leadership of the Leninites in Russia.

The upheaval in Germany which accomplished the overthrow of the Chancellor has served only to demonstrate the strength of the reactionary element which has so long dominated the country. There are promises of electoral reform in the future, but the liberal element in Germany looks for nothing of practical value from the new administration.

Greece at last is definitely into the war as an ally of the entente powers. Siam has ranged itself on the same side. Argentina and Uruguay are showing a most hospitable and friendly spirit for the American naval fleet now in their waters. The moral influence of the whole world is uniting against Germany, and eventually must make itself felt within that country.

General Business Conditions.

General trade has slackened somewhat, as is usual in mid-summer, but there is no let-up of activity in the industries, and no prospect of any. Labor difficulties are the most disquieting feature of the situation. The I. W. W. has been successful in temporarily paralyzing the copper-mining industry in Montana and Arizona and the lumber industry in the Pacific northwest. The labor situation is the source of much anxiety because all the industries are interdependent, there are no stocks of materials, and a shut-down in one industry forces curtailment or suspension in others. The nation is put to a supreme trial of its strength, and its strength is dependent upon the loyalty and patriotism of its people in all walks of life. Fortunately crop prospects give encouragement to the hope that the cost of living will be less this coming winter than last.

The efforts of government officials to control prices not only to the government but to the general trade, have been a prominent feature of the situation, and have had some effect in influencing buyers, particularly in the steel trade, to hold off on purchases; but for months steel producers have had little to sell except for

far-off deliveries. The outstanding fact of the steel situation is that the mills are crowded to their capacity and there is no prospect of a relaxation of the pressure upon them while the war lasts. They are loaded up with government business and declining private orders, although trying as best they can to take care of regular trade. There is a great congestion of private business, and where so many people are wanting a commodity, willing to pay high prices to get it, and trying to outwit each other in getting it, prices inevitably rise. It is not a pleasant situation to contemplate, and prosperity certainly is not the word to describe it, but on the other hand it is incorrect to represent producers as holding up the market or exacting a price.

It has been a runaway situation, with the market made by buyers, in the same manner that the wheat market is made, and costs are under similar influences. Millions are being expended without regard to expense to enlarge the steel and iron capacity to supply the demand. At the moment it looks as though the high prices and uncertainty of deliveries had put on effective check on demand, and some weakening of prices is noticed; but it should be remembered that quotations in recent months have signified but little as to actual prices upon the bulk of production. Building operations in which steel is required have been brought almost to a standstill, so far as new work is concerned, and if this attitude is maintained by the public generally, a few months will bring about a readjustment of prices on a more practical basis. After all theorizing upon price control, the fact remains clear that the most effective way of holding down prices is by having the buyers who can do so postpone their purchases. All the moralizing in the world will not keep down prices in a free market, when consumers are bent upon getting the goods away from each other. If consumption was not curtailed by high prices it would have to be arbitrarily curtailed by a selected distribution. The American public must reduce its competition with the government for the materials that are required for war use.

The government is going ahead with contracts in many lines, notably for aeroplanes, motor trucks, and miscellaneous supplies, and it is reasonable to expect that a fair basis of compensation will be reached upon all commodities.

The probability is that the industries and the government, as they work together for results, will come to a better understanding. The business men and engineers who have been called to Washington are rendering inestimable service. In providing for the supply of trucks the manufacturers have agreed to lay aside their own patterns and to all build a standardized truck, so that all parts will be interchangeable. The same thing will be done upon the aeroplanes, so that any number of factories can run on them. A new standard engine has been designed, known as the United States engine, which the experts do not doubt will be equal to any engine now made, and it will be used in all aeroplanes. The energy and genius of American business is enlisted for the war, and the resources of American industry are unreservedly at the government's command.

The transportation situation is much better, and the railroad committee at Washington is constantly developing its scheme of harmonious operation, but the volume of traffic is beyond all records, and an expansion of all facilities is very much needed.

Cost of The War.

The Secretary of the Treasury has submitted supplemental estimates to Congress showing that appropriations for the war will have to be largely increased over the original figures. The aggregate for all government expenditures for the year ending June 30, 1918, is now calculated at $10,735,000,000, not including loans to allies. The plans for war operations have been enlarged, and the shipbuilding program will call for a large sum. More money will be required also for loans to allies.

These rapidly increasing demands must be accepted as inevitable, and with the reflection that there is no economy in dallying with the business of war. Every effort that can be effectively made should be put forth as quickly as possible, and the American people must adjust their affairs to support this policy. The sums to be raised are enormous as compared with all previous financing, but it is easy to show that they are not beyond the resources of this people. The best way to measure these requirements is not by comparing them with estimates of the national wealth, as though that was to be diminished year by year until possibly all was extinguished, for in fact the national wealth is not going to be diminished. The wealth of the United States will be greater a year from now than it is now, and still greater at the end of each succeeding year. Improvements will go on, not so fast perhaps as in time of peace, but houses will be built, farms will be improved, industrial equipment will be increased and savings will grow. This is true in greater or less degree even in the countries that have been at war for three years.

These expenditures will not be made out of the accumulations of the past; they will represent new demands upon our productive capacity, and our problem is to reduce ordinary consumption or increase production accordingly. Men will be withdrawn from the industries for the army and navy; we will have to

get along without them, as Canada is getting along without 500,000 from a population of about 8,000,000, and as Great Britain is doing without 5,000,000 out of a population of 45,000,000. The demand for equipment and materials will draw most heavily on the steel industry, requiring, it is estimated, as much as 30 per cent. of its capacity for government orders, including those of foreign governments. Men must be withdrawn from other work to make munitions, build aeroplanes, motor trucks and other war supplies, and to build merchant ships. There is also a great amount of work to be done which indirectly contributes to the war work, such as the mining of coal and copper, transporting men and supplies, all of which will be paid for from the war funds. In the last analysis the cost of the war is for labor drawn from the ordinary avocations, and the cost should be met by curtailing private consumption to release that labor. In other words our savings should match the government's spendings, and when we grumble about high prices we should remember that they stand for the law of supply and demand working out precisely this result. High prices signify a persistent determination to have things, regardless of the new demands that have arisen. It is a part of the war task for each individual to do his part toward reducing the demand for every article upon which prices are high, and toward increasing the supply. It is not a question of an individual's ability to buy; it is his duty to turn every dollar of possible purchasing power over to the government, and to reduce his demands on the market to correspond. The one act is the complement of the other.

Much of this increased consumption can be met by increased efficiency in the industries. The difference in results between ordinary production and production stimulated to the limit of capacity, with every available man and woman employed, is very great, and there is great stimulus to the use of every labor-saving process.

Food Production Most Important.

There is no other field in which so much may be done to ease the pressure of war conditions, and to enable the masses of the people to make the contributions they would gladly make if within their power, as in the field of food production and distribution. The demands of the other industries draw constantly upon farm labor. The farmer labors faithfully, but under many difficulties, and there is a gap between him and the consumer which has not been scientifically bridged. In the face of a great production of perishable products this year, prices have been high and there has been an enormous wastage, because there is no adequate system for the handling and distribution of such products. Much has been done this year by community organization to safeguard the supply of food, but more should be done in the future.

We give the following extract from a letter by Mr. John H. Frye, President of The Traders' National Bank of Birmingham, Alabama, because of its suggestive character:

> Following the President's Proclamation in April last, a committee was formed here to inaugurate a campaign for greater food production in this section of Alabama, and we have sought to secure the co-operation of farmers, merchants, fertilizer concerns, and banks, in the effort to influence the production of larger crops, and to conserve them. We have been very much pleased, in the past few days, by an announcement from the Federal Department of Agriculture, to the effect that estimates of the Department show that Alabama will make this year, over 1916, a larger gain in grain production than any other Southern State.
>
> Noting your reference to perishable crops, such as vegetables, would say that our committee has sought by every means to secure the co-operation, both of communities and families, in making provision to can perishable crops. We have sought to encourage this, both on a domestic and on a commercial basis. It may be of interest to know that a large canning company here has agreed to can vegetables on a toll basis. By this means, the producer has the option, not only to sell his crop at market prices, but to have it canned.
>
> This campaign for food production has, of course, been made necessary by war conditions, but our committee hopes that the effort now being made in Alabama will be continued long after the war has ceased. We feel that by proper encouragement of production, and aid in marketing, we can render a very great service to our State, this on the theory that if funds sent away to other parts of the country for food supplies were spent at home, the farming community would grow rich, and it in turn would enrich the city.

In some localities community canneries have been established. Small establishments on the toll system are well calculated to encourage localities to make themselves independent in food supplies.

In the production of grain the farm tractor has great possibilities. The tractor does not tire as a horse does, is not affected by heat, and can be operated 24 hours a day. There are great areas of idle land in this country and Canada which can be put into grain, the agricultural colleges are training tractor operators, and the tractor builders are turning out machines rapidly. With proper organization to secure their continuous use the present supply of tractors can be made to do much more work. The present manufacturing equipment of the country is capable of turning out 75,000 tractors a year, and 75,000 tractors can do the plowing for a billion bushels of small grain.

In short, this country and Canada have all the resources necessary not only to feed themselves but to feed the world. The food problem is the result of pure neglect. This ought to be the last year of acute food scarcity. But there should be no waiting on leadership from above. Every county in the United States should have its own committee and go ahead with its own plans, as was done with garden planting last spring. Silos should be building everywhere, and preparations making to fill them with forage to maintain the flow of

milk and save grain this winter. In many parts of the country much can still be planted that will supply winter feed for animals. The situation calls for leadership by the best business brains of every local community.

Financial Conditions.

The money market has been unsettled throughout the month, owing to the heavy transfers of funds between the banks and the Treasury, and some shifting of reserves pursuant to the requirements of the Federal reserve amendments. The effect appeared in sharp changes in call money rates, which, however, affected a comparatively small amount of business. The banks do not always resort to the Federal reserve bank for the purpose of keeping the call rate steady. The borrower in the call market is an orphan, for whom no one has a very keen sense of responsibility. Time money has been steady with a tendency to a firmer feeling in the latter part of the month. The six months' rate is 4¾ to 5 per cent.

The most noteworthy fact of the situation is the absence of any appreciable trace of the Liberty Loan transaction in the New York bank statement. It was the biggest piece of financing ever handled in this country, and it might be expected that New York would lend considerable money in connection with it, particularly as the subscriptions of this district were about 85 per cent. paid at once. But the loans and investments of the Clearing House banks on June 9th aggregated $3,790,284,000, and on July 28th aggregated $3,773,538,000.

The Federal Reserve banks likewise show a comparatively small increase in their loan totals. On June 8th bills discounted for members aggregated $98,021,000 and bills purchased in the open market, $135,270,000 on July 28, these figures were $138,459,000 and $195,097,000, respectively.

Great interest is manifested in banking circles in the next government loan, but no official information has been vouchsafed upon it.

The Federal reserve amendments are now in full effect, and nothing counts as legal reserve for any member bank but credit at the reserve bank of its district. The terms "reserve city" and "central reserve city" have lost their old meaning under the national bank act, although the designations are retained for the purpose of classifying the banks as to the percentage of reserve required. The New York Clearing House statement conforms to the legal requirements. The "excess reserve" reported is the excess in the Federal reserve bank, with no account taken of till money.

The transfers of reserves to the Federal reserve banks have increased the total gold holdings of the reserve banks, including those of the reserve agents from $1,013,818,000 on June 8th to $1,362,263,000 on July 28th.

The change by which cash in bank no longer counts as legal reserve will naturally lead the member banks to carry as little till money as practicable, and works to the disadvantage of banks which because of their location or the special requirements of their customers are obliged to have unusual amounts of money near at hand. For this reason a number of branches will be opened by the reserve banks in important cities of the several districts. Arrangements have been completed for branches at Omaha and Spokane, and branches have been practically determined upon at Baltimore, Seattle and Portland. Louisville and several other cities are under consideration.

The Treasury statement of the different kinds of money in circulation in the country on June 1, 1917, and at the corresponding date of 1916 is as follows:

	June 1, 1916	June 1, 1917
Gold Coin	$ 631,000,000	$ 712,000,000
Gold Certificates	1,313,000,000	1,736,000,000
Silver Dollars	66,000,000	71,000,000
Silver Certificates	490,000,000	483,000,000
Subsidiary Silver	169,000,000	193,000,000
United States Currency	342,000,000	342,000,000
National Bank Notes	733,000,000	711,000,000
Federal Reserve Notes	182,000,000	494,000,000
Total Circulation	$3,926,000,000	$4,742,000,000

The Bond Market.

The interval between the first and second instalments of Government financing is being taken advantage of by railroad, public utility and industrial companies to finance their most pressing needs. The majority of this financing has been done by means of short term notes issued at the unusually attractive rates which present conditions demand.

July financing has included the initial offering to the public of a block of Federal Land Bank 4½% Farm Loan 20-Year Bonds at 101⅛, to net about 4¼% to maturity. On July 12th the city of New York sold to a syndicate of bankers $47,500,000 4½% 50-Year Bonds and $7,500,000 4½% Bonds maturing serially from one to fifteen years. The price, while considerably lower than that obtained for $40,000,000 50-Year 4½% Bonds sold by the city in April, 1916, was, nevertheless, considered satisfactory.

The principal corporate financing during the month has comprised $15,000,000 General Electric 3-Year 6% Notes offered to the public on a 6.10% basis and quickly over-subscribed; $15,000,000 Chicago and Western Indiana Railroad Company 1-Year 6% Notes, offered on a 6¼% basis; $10,000,000 Southern California Edison Company General and Refunding Mortgage 2-Year 6% Bonds, to yield about 6¾% and $6,000,000 Mark Manufacturing Company 3-Year 6% Secured Notes to yield slightly less than 6¼%.

The Delaware & Hudson Company has

found it advisable to issue notes instead of bonds, and has effected a private sale of $9,000,000, three year 5 per cents.

Up to July 26th the average price for ten leading rails shows a small net gain over the first of the month; for ten public utilities a net gain of almost ½ of 1% and for ten industrials a net gain of ¼ of 1%.

The sharp demand for Liberty Loan 3½s which followed the reduction in allotments of large subscribers has been largely satisfied and the market for this issue now more clearly shows the effect of normal demand and supply.

Offerings are not large but have been somewhat increased, and prices are slightly lower, as a result of the new Treasury estimates.

The gains made two weeks ago by the Russian 5½s and 6½s upon encouraging reports from Petrograd have been practically wiped out as the result of recent adverse developments. These bonds are now selling at about the same levels as prevailed on the first of the month. Other foreign government bonds have remained fairly steady.

The close of the month witnesses the closing of negotiations with a syndicate of American bankers for a loan of $100,000,000 to the Dominion of Canada. The loan is to take the form of 2-Year 5% Notes, and is offered to the public on about a 6.07% basis. This issue has particular interest as it is the first foreign offering since the declaration of war by the United States to receive the official sanction of the Secretary of the United States Treasury. This loan, like the loans to our European allies, is for the purpose of settling a trade balance in favor of the United States. The market awaits the result of the offering with special interest, as its success would indicate that the demand for high grade short term notes has not yet been satisfied.

The outlook for the security market is largely dependent upon the policy of the government with regard to taxation and price regulation.

Taxation.

The revenue bill has made but little progress in the last month, food regulation having had right of way in the Senate. The revenue bill is next in order, and the fresh estimates from the Treasury strengthen the arguments of those who favor more taxation. The amendments proposed by the Senate Committee increase the excess profits taxes but eliminate a great amount of other taxes proposed by the House. It is conceded that taxes must be heavy, and profits and incomes that are swollen by the war are evidently proper objects for increased levies. Whatever consideration is shown them must be justified by public, not private, reasons. The industries are under enormous strain, costs have greatly increased, and a great deal more money and credit is required to carry on business. The profits which are shown by balance sheets are not in the treasuries of the companies, they are not being paid to stockholders, and they do not exist in form where they can be withdrawn from the business. They are in machinery, materials, supplies and goods. So long as they are in this form they are serving a public use, and for public reasons are to be regarded with the same interest and consideration as the farmer's growing crop. Under these conditions money can be raised by the sale of bonds with less interference to business than by taxation, because government bonds can be used as the basis of credit and business within the country can be carried on upon credit.

The sale on the market within the last month of $15,000,000 of notes by the General Electric Company illustrates the situation. This is one of the strongest and most prosperous concerns in this country. Its books are crowded with orders, and these orders are of great importance to the country. They mean an increase of the power equipment of the industries. The current profits of the company are large but not sufficient to provide the working capital it requires to handle the business, and it is in the market as a heavy borrower. This is the factor in the situation which is deserving of consideration, not as a question of leniency to the stockholders, but as a question of public policy. Interest on government borrowings at 3½% or 4 per cent. is not important at this time if the business of the country is supported and facilitated by one policy more than by the other. This, however, is not an argument against heavy taxation, but against extreme immediate taxation, and for the spread of taxation over a longer period.

Professor Marshall, the dean of English economists at this time, writing upon war taxation recently, says that if it were possible to exempt from the income-tax that portion of income which will be saved to become future capital, it would be desirable for public reasons to do so, but he also urges that taxation should be light upon necessities. He suggests an "Inhabited House Tax," "graduated more finely and more steeply than at present," a tax on domestic servants, very high and graduated steeply, according to their numbers, especially upon male servants, lighter on female servants; a graduated tax on motor-cars, and various luxury taxes. On the subject of indirect taxes he warns that "the general tendency of taxes on particular commodities is to be graduated inversely," that is, "they are apt to fall on things which absorb a larger proportion of the expenditure of the poorer classes than of the richer, and they are apt to be larger percentages of the value of the thing consumed by the poorer classes than of the thing consumed by the richer."

Silver.

The silver market has been excited and higher in recent weeks, and the position of the metal is very strong owing to the heavy balance of trade in favor of India. The situation is the occasion of no little perplexity to the British authorities, and concerns the United States as well, for if the balances due India cannot be paid in silver they will have to be paid in gold, and nobody cares to see gold taken to that bourne from whence neither gold nor silver ever returns. The balance of trade in favor of India for the last British fiscal year, ended March 31, 1917, was $270,902,259, which compares with $196,438,030 in the year 1915-16, $128,333,081 in 1913-14 and $261,682,938 in 1912-13, the last year of normal trade. In 1914-15 the importations of silver by India amounted to 60,077,452 ounces, in 1915-16 to 35,629,913 ounces and in 1916-17 to 115,565,861 ounces. In order to direct all importations into the government treasury private importations have been recently prohibited, except under license. The Indian demand has caused a large movement of silver from China and exhausted supplies everywhere without satisfying the trade requirements. It is said that large plantations in Ceylon have been greatly embarrassed for the want of rupees to pay for their labor, and money has been tight in the financial centers of India.

The Indian government is understood to have asked permission of the home government to allow it to import gold either from London or the United States, but consent has not been given. Japanese banks are shipping gold from Yokahama, in payment, it is explained, for Indian cotton, and there would be a handsome profit to American banks in gold shipments from this country, but they have abstained for public reasons.

In order to correct the exchange situation the Indian government has brought out a loan of £100,000,000, or $500,000,000, the proceeds of which will be placed to the credit of the British government. Reports show that the loan is being well subscribed, and this should remedy the exchange situation as between India and the outside world, but it does not remedy the embarrassing situation in India, for the reason that the small Indian farmer or laborer is not a bond-buyer, and he is the individual who is wanting silver or gold in exchange for his products and labor. The great body of the Indian people have little knowledge of paper money or any form of credit, and nobody knows how to persuade them to take any substitute for the precious metals.

The total production of silver in the world in 1913 was estimated at 223,900,000 ounces, but in 1916 the estimated yield was only 172,383,000 ounces. The chief falling off has been in Mexico. On the other hand the coinage of silver in all countries has increased, owing to payments to troops and the activity of trade. France used 20,000,000 ounces in 1916, which was four or five times its normal consumption. The coinage of the United States is far beyond the usual amount.

The price of silver in New York is 78 to 80 cents, and has been spasmodically above the latter quotation. This price is very remunerative to silver producers, especially as silver in the United States is mainly produced in connection with lead and copper, which are also bringing high prices.

Crops and Food Prices.

The crops have passed through July on the whole without deterioration. The weather has favored the harvesting of winter wheat, and threshing returns show a fine quality of grain and a yield above expectations. Spring wheat is in good condition over most of the territory, but has suffered in western North and South Dakota from drought. The big acreage in corn is now making up for lost time; it has suffered in the Southwest from hot, dry weather, but over the greater part of the country the crop is a good stand, clean, and thriving. There is still good reason to hope for a bumper yield. Oats are a fine crop, and nearly out of danger, barley is good, rye below the average. At the end of July we believe the prospect is good for the best yield of grain in the aggregate ever produced in this country. It is true that the yield of wheat will be nominally over 300,000,000 bushels below that of 1915, but the crop of that year was seriously injured in the harvest and much of it was unfit for flour, while this year's wheat promises to be of good quality. We believe the corn and oats crops will surpass the record yields of 1915.

When we include all foodstuffs our confidence that this year's production will surpass that of any other year is greatly strengthened. The government's estimate, on July 1st, for potatoes, was 451,717,000 bushels, against 285,437,000 in 1916 and 359,721,000 in 1915; and its estimate for beans was 22,141,000 bushels, against 8,846,000 bushels in 1916 and 10,321,000 in 1915. These figures do not include garden production, which for all vegetables is unusually large.

Of course crops in other countries will be a factor in the prices of all grains, and fortunately the news from all quarters is more hopeful than early in the season. The Canadian crop promises to be larger than last year, and the crops of England and France are better than at one time was feared. The potato crop of England, last year poor, promises to be very good.

There will be a very large acreage of wheat in Argentina this year, but it is too early for a

forecast of the crop, which comes to harvest in December. Australia and India have large reserves of wheat which have not been forwarded because of a lack of ships.

The bill as passed by the Senate gives the President authority to fix a minimum price upon wheat at not less than $2 per bushel, but names no prices for other grains. There is, of course, a natural relation between the prices of wheat and other grains, and if the government should establish such a guaranty for wheat without offering equal inducements for the production of corn and oats there probably would be a large increase in the output of the former at the expense of the latter, and the farming industry might be thrown out of balance. Any reduction in the production of corn would seriously affect the live stock industry. As the fixing of any minimum price is left to the discretion of the President it is possible that the restriction placed upon him as to wheat may prevent his taking any action at all. The price-fixing authority as amended in conference does not take effect until next year's crop is ready for market.

Corn has sold during the month just passed as high as $2.35 in Chicago. The supply of old corn is very low, and we do not think these figures have much significance as related to the new crop. Buying by distillers who expect to be put out of business in a few weeks has been an important factor of late. At present prices for corn and live stock there is serious loss to farmers in feeding corn, and the effect is to force immature cattle and hogs to market, curtailing the meat supply later. This has been the situation since last Fall, owing to the small corn crop. With corn above $2 per bushel hogs should bring $20.00 or more per hundred weight, but they are selling at about $15.

The cotton crop in the last ten days of July took a decided turn for the better, under favorable weather conditions. It had been having too much rain east of the Mississippi, and not enough west of the Mississippi, but with a reversal of weather in both sections the plant has made encouraging progress. Its present development makes it entirely possible for the crop to turn out from 13,000,000 to 14,000,000 bales, which with a carry-over of 1,500,000 bales will take care of consumption very well, providing the Central European markets are not opened up before another crop is harvested. The consumption of the United States in the last crop year has been about 7,700,000 bales and exports have been about 5,500,000 bales. The price is now about 25 cents per pound, and in recent weeks raw cotton has actually been shipped from New England mill centers for delivery on the New York market. Cotton goods are firm, with an advance in prints at the close of July of 20 per cent.

Price Fixing.

The problem of price-fixing upon purchases for our own and foreign governments and for the general market has continued to be one of acute interest. Prices upon steel and copper for government use have been referred to the Federal Trade Commission. An agreement to hold the price of bituminous coal at $3 per ton was made by the association of operators in conference with Secretary Lane and a member of the Federal Trade Commission, but other government officials have disapproved of this figure as too high. The agreement is being generally observed so far as prices to the public are concerned.

It is easy to agree to the abstract proposition that war should not be made the occasion for money-making, and that the public interests are paramount to the right of individuals to unusual profits. The situation, however, is so chaotic and extraordinary that it is not only difficult to say off hand what prices are fair to producers but what prices will best serve the public interest. An illustration is afforded by the following extract from a statement by Mr. Daniel Willard, chairman of the committee on transportation of the Council of Defense:

> "Twenty-nine per cent. more bituminous coal was handled in April, 1917, than in the same month of 1916," Mr. Willard said. "The exact figures for 85 of the principal coal-carrying roads show that in 1917 there were 659,000 cars handled, as compared with 508,000 in 1916, for an equal number of days.
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> "There are literally hundreds of new mines. On one road there have been more than one hundred new mines opened during the last six months."

Mr. Willard was discussing the coal situation solely with relation to the increasing traffic, but his statements shows the extraordinary efforts that are being made to increase production, and that after all is the matter of largest consequence. The industries of the country are consuming enormous quantities of coal, and our allies, France and Italy, are in desperate need of coal. Dr. Nansen says that coal is costing over $60 per ton in Norway, and the branch of the National City Bank at Genoa reports it selling above $100 per ton in Italy, "with few transactions." The price of coal, within fifty cents or a dollar a ton, is a secondary consideration with consumers, compared with having their wants supplied, and they can only be supplied by enlarging the output. It would be no simple task to regulate profits on present production, with costs varying as widely as they do in coal mining, but there is the further question of securing an increased production. The cost of opening and equipping a mine at this time is very much above what it is in normal times, and when the war ends there may be a surplus of coal on the market, and a lapse back to the conditions which prevailed for years before

the war, when only the low-cost or most favorably located mines could make a profit.

A somewhat similar situation has existed in spelter, or zinc. When the war began the market price of spelter was about 5 cents per pound. Under the pressure of the new demands the price rose until at the crest of the movement the price was about 27 cents per pound. The influence of rising prices, however, caused great activity in the zinc-producing districts. Prospecting was stimulated, new mines were opened, smelters were enlarged and new ones built, production was increased until the price began to fall. Spelter is now selling at about 10 cents per pound, which, considering the general rise of costs and of other prices, is scarcely higher relatively than 5 cents was before the war. That problem has worked itself out. The new production was both induced and financed by the high prices, and could not have been obtained without them, as there is quite certain to be an excess of producing capacity after the war.

The Senate in providing for the regulation of food supplies, while giving large powers to the President and his advisers to fix prices, has proposed to safeguard the production of wheat by establishing a minimum price of $2 per bushel. This is a high price as compared with normal prices, and there is no maximum price; the farmers can have more if the market goes higher, but reliance is placed upon the stimulus afforded by the guaranteed price to produce an ample supply. For the farmer who is already equipped for wheat-growing, and who continues to sow only his usual acreage, there is doubtless a large profit at $2 per bushel. But the price is fixed to induce thousands of new producers to undertake the expense, at high cost, of putting new acreage into wheat, and that will undoubtedly be the result. This is a reversal of the policy of restriction and discipline. The intention is still to get the best results for the public, but the emphasis is put in another place.

Lasting Effects Upon Production.

There is a silver lining to this cloud of high prices which ought not to be overlooked. Under the enormous stimulus which is being given to production in so many important lines it is certain that when the war comes to an end the productive capacity of the country will be far beyond what it has been in the past, and there is good reason to believe that permanent benefits will be realized and widely distributed. It is true that producers instinctively fear a period of overproduction and of unprofitable prices following such an expansion as is now occurring, but while prices will fall enough to greatly relieve domestic consumers the foreign outlet will probably be sufficient to take our surplus at fair prices, provided we are organized to promote and finance a development of our foreign trade.

Agriculture is being stimulated and permanently benefited by this period of high prices. Sugar production is being largely increased in every sugar-making country outside of those engaged in the war, and particularly in Cuba and the United States. The new sugar mills are of the most efficient type and when the supply of sugar again exceeds the demand, which will be as soon as beet sugar production is resumed on a normal scale in Europe, the new mills will make the price lower, probably, than it was before the war. Live stock is now increasing in this country. The decline in cattle which was brought about by the liquidation of the large ranch herds, is being overcome by the multiplication of farms where the ranches were, and by the growth of small herds. The extermination of the cattle "tick" in the South is proceeding, and the beef and dairy industry is spreading in that section. Progress is being made in controlling the swine plague. The South is likely to grow more of all food crops in the future, and the work being done everywhere for a productive agriculture is giving promise of valuable results. The country is being awakened as never before to a realization of the fact that all other industries are dependent upon agriculture, and that the welfare and progress of the people require more comprehensive and intelligent attention to the production and distribution of foodstuffs.

Meanwhile those who are inclined to pessimism as regards the lot of the wage-earning class should remember that every great period of industrial expansion in the past has resulted, when conditions settled down, in the workingman occupying a higher position than he held before. Wages do not go up like potatoes, but they hold their gains better than potatoes do.

The Real Distribution of Wealth.

These complicated questions of price regulation, taxation, etc., all hark back to the big, main question in which society is interested, to-wit: the final distribution of the fruits of industry with relation to the average man's share. We have often endeavored to point out that at the very beginning of any discussion of this subject, it is important to determine what is real distribution. In current discussion there is but slight recognition of the value to the community of capital accumlations, taking form as they must in improved and enlarged facilities for general production and public service. This community value of private wealth is understood by economists, and it is understood by everybody in concrete cases; every new community appreciates the gain from having a railway built into it, or a water power developed, but in general discussion it is usually assumed that all the

benefits of wealth accumulations, even in these forms, go to the owners. There is little analysis of actual distribution. The emphasis is placed on the ownership of equipment, rather than upon the distribution of the goods produced. Mere ownership of productive property, however, only gives the right to go ahead and produce something. All the benefits from productive properties come out in the stream of products that issue from them, and the real distribution of the national income takes place at the point of consumption, where these products are finally absorbed by individuals and disappear from the common store.

Whether a man is a day laborer or a millionaire, he actually gets as his share of current production what he consumes or withdraws from the common supply to his own exclusive use and benefit and no more. If he occupies a seat in a railway car, he has taken that much; if he keeps a servant, he has taken that much. if he owns a motor car, he has taken that much; if he keeps a costly estate, he has taken that much—but he gets nothing which remains in the use or service of others.

If he allows the profits of his business to remain in the business for its expansion, they have not been realized and may never be. Every town in the country can tell of business houses that have prospered, grown by means of their profits, and then gone into decay and finally into bankruptcy. The proprietors realized only such profits as they withdrew from the business and devoted to themselves. If they withdrew profits from one business for investment in another, there was no distribution to themselves, merely a shift to another public employment.

A State Investment.

The State of New York in its corporate capacity constructed the Erie Canal. For many years it realized large profits from the tolls, and those profits are proof of the service which the canal was rendering in those years. But with the development of the railways, canal traffic fell away, and tolls were finally abolished, the State maintaining the canal free of charges by appropriations from the treasury. Even at that it was scarcely used, which is evidence that the railways were giving a superior service. Now a new chapter has been begun by the expenditure of more than $150,000,000 for the reconstruction and modernization of the canal. The old canal had become worthless. The State as a proprietor is in the same position as private proprietors: its investments are valuable to it only so long as they are serviceable to the public, and it realizes only such profits as it is able to withdraw, and does actually withdraw, and devotes to its own support. The fundamental requisite of every investment is that it shall meet a public want and to the extent that it does this the results to the public are the same whether it is publicly owned or privately owned. It is a superficial view, therefore, to regard savings or profits which are invested productively as having been distributed or devoted to private purposes. They are still in use as a part of the community equipment. The railroads of New York State are as truly a part of the community equipment as the Erie Canal. If the State owned the railroads it would have to provide the capital for their improvement and expansion as it has provided for the reconstruction of the canal, by borrowing from private investors. Whether the borrowing is for canal or the railways, by a public or corporation proprietor, the essential fact is that the earnings and saving of other industries instead of being distributed and consumed are devoted to the transportation service.

A Benevolent Enterprise.

A public-spirited citizen of New York, of strong humanitarian impulses, has maintained for many years a system of depots where during the heated term pasteurized milk is sold for babies at less than cost. It is a philanthropic service, deserving of the highest praise, but evidently all business could not be conducted upon that basis; even the charities would die away unless there were profits in business. And if an attempt was made to carry on the milk business generally at actual cost there would be no capital for its expansion or for the improvement of methods, except as it might be contributed for benevolent reasons from the profits of other business, and to that extent it would be a drag upon the development of other industries. Philanthropy is helpful and altogether admirable in its place, but whether carried on by the State or by private agencies, it must be supported from profits or savings acquired elsewhere.

In short, profits or savings are indispensable, and are not to be regarded as beneficial to the owners alone; they have a public utility. Every dollar that is saved for investment is an instrumentality for industrial and social progress. It is the surplus income of individuals, whether saved painfully by small economies or accumulated rapidly by the introduction of a new utility, or gained by any of the multifarious changes which are always taking place in the business world, or the result of plain superiority of business management—whatever the source, it is surplus income, available for investment, which puts the new ideas into effect, and carries the world forward in industrial methods.

An Unearned Increment.

The following story went the rounds of the press a few weeks ago:

> There is a Creek Indian in Oklahoma named Jackson Barnett with an income of $50,000 a month. It is derived from some oil-bearing property of which he

became possessed as his share of the land given to his tribe by the Government. He lives in a little cabin and sleeps outdoors. He spends less than $50 a month, not because he is niggardly, but for the very good reason that he does not want anything more than $50 will buy.

Apparently he has been adjudged an incompetent although his simplicity of life should be proof of his sanity. His surplus income in the hands of his guardian is now in excess of $800,000. It is proposed, whether by Barnett or his guardian is not quite clear, that his uninvested bank balance should be put in the Liberty Loan. To that no objections are visible at this distance but there seems to be some question about its legality in Washington and Oklahoma.

This is an extreme case of the "unearned increment," the owner presumably having contributed nothing to the discovery or development of the values which have come into his hands. Nobody would say that it is an ideally perfect system of distribution which gives possession of great natural wealth into such hands; it is an incident of the general system of private ownership. But the case serves to illustrate that it is not what a person owns but what he consumes or appropriates exclusively to himself that constitutes real distribution to him. If Barnett goes through life spending less than $50 per month upon his own personal support and pleasure, that will be all which he withdraws from the common fund. If the rest of his income is continually invested productively it will be in the public service as completely as though the title to the oil lands had never been transferred from the government. And to the extent that they have been used for the development of industry the same is true of all the fortunes that have been developed in the oil industry—and in all the industries.

Industrial Progress

The history of industrial progress, and of social progress as well, is a continuous story of efforts withdrawn or diverted from the direct satisfaction of wants to the improvement of methods, in order that wants might be more easily and abundantly satisfied in the future. The books upon the "elements" and "principles" of economics all begin with accounts of how the primitive man learned to improve his lot by making weapons with which he could kill game, and tools with which he could cut down trees, build houses, boats and carts, and till the soil. The labor expended upon weapons and tools was an investment; these implements were the capital of that time; they did not yield direct satisfactions, but by their use man's powers were so increased that he was able to raise himself to higher levels of existence.

That process has never ceased. The methods and implements of industry are being constantly improved, but as industry becomes more advanced and complex, and the consumer is further removed from personal knowledge of the means of production, the part which these investments play in production are naturally less obvious and less fully understood. The enormous present equipment for supplying the wants of the population constitutes the capital of this time, but the relation of this capital to the supply of common comforts and to social progress is not clearly understood.

No doubt it was at a very early period of this development that men began to ask whether it was worth while to spend labor on the further improvement of tools. There is always some uncertainty as to whether an attempt will be successful, and meantime the same amount of effort in the old way will produce certain results; and then there were always those who would rather rest and enjoy in the present than toil for a doubtful promise of reward in the future. The appeal of the future is very much stronger with some people than with others. The willingness of an individual to labor and deny himself in the hope of future gains is a test of intellectual vision and character. The difference in the ability of peoples to comprehend the way of progress, and to plan, organize, co-operate, and save for the sake of increasing their command over the resources of nature is a measure of their development in civilization.

Always there are the two conflicting views—of those who lay the emphasis upon division and those who lay the emphasis upon production. The first look out upon the industrial world with the thought that there should be a more nearly complete and equal division of the product, while the second have their thoughts fixed upon invention, construction and improvement, with endless possibilities of increasing the product. The one thinks of productive conditions as settled and permanent and the output a fixed amount; the other takes in all the conditions affecting production, the importance of management, leadership, vision, and changes as revolutionary as those of the past. The latter asks at what time in the past would it have been beneficial to society to have put industry into straitjackets, eliminating individual initiative and leadership, and forcing a distribution of all gains for immediate consumption?

Capital an Increasing Factor in Industry

As industry develops, construction and machinery become an increasing factor in it, which means that the application of labor to industry is more and more by indirection, with the relationship of labor to output more remote and obsure. Within the memory of people now living whale oil was commonly burned for lighting purposes; it was succeeded by kerosene, gas and electricity, with capital-investment in plant an increasing factor. With electricity from water-power pulling and lighting a railroad train we have an illustration of the social gains recently accomplished by applying labor indirectly, or, in other words, by

first creating capital and then applying capital to the task in hand. The old Erie Canal and the railroads which run beside it furnish another illustration. The former represented a greater investment than the wagon roads which it superseded, and was economically more efficient; the railroads represent a further application of capital and an increased efficiency. The new canal will not supersede the railways, but is expected to be more economical for some purposes, and by reason of the increased investment will be more economical than the old canal.

With the increase of the fixed investment there is a larger factor in the costs which is far removed from the product but which must attach to the product, and one of the results of this is that superficial studies of the distribution of "income" show a larger percentage going to capital than when industry was in simpler stages. A moment's reflection, however, should convince anyone that there is nothing wrong in this. Of course capital's share of the joint earnings of capital and labor is greater in transporting goods by railway than in transporting them by a wagon line, but that is only a small part of the story. The actual cost to everybody is less, and of the earnings of capital that portion which is re-invested in industry should be regarded as undistributed.

The profits of capital in one industry are continually financing the progress of other industries. There is a flow of free capital, created by past investments, all over the field, and this fact often tends to obscure the results, because they are not readily traced. It is not uncommon to hear it said that a certain prosperous industry has not given the benefit of improvements to the public, having neither reduced prices nor increased wages, but even though the facts be as alleged, they do not include the whole story. It is certain that wherever the profits are invested they become a factor in increasing production, which means better living conditions for all.

Does Capital Increase Too Fast?

It is a common and natural question to ask, why, in the face of the vast capital accumlations that have been made in the last generation, and the enormous gains in the productivity of industry, there should still be so much poverty. Admitting that capital accumulations exist in the form of productive equipment, it is asked if accumulation is not overdone, and if it would not be better to make a larger division for immediate consumption? The Des Moines Register in a thoughtful and temperate editorial presents this view as follows:

Saving and Spending.

The problem with every individual is how to save without stinting himself and his family too much in their daily needs, how to accumulate a capital fund, without depriving himself of the enjoyments and conveniences of life.

It is easy to go to either extreme, easier to go to the extreme of spending than of saving. More than one man who in his prime has enjoyed a liberal salary has been buried by the county at the last. On the other hand, less frequently now than a generation or two ago, men have kept the sugar locked up that no personal indulgence might interfere with accumulation.

To strike a happy medium, to save a working capital, for the future, and at the same time bear a full part in the activities and enjoyments of the present, is the real test of personal capacity. Only the rare man gets the most out of the present while making wisest provision for the future. The average man either spends everything as he goes, or makes a vice of saving.

The problem of the individual is the problem of the community. Nationally the American people are precisely where every individual American finds himself. The national problem is how to get a working capital for the development of vast enterprises, without depriving too many people of bath tubs. It is tremendously important that we have accumulated working capital. It is tremendously important that the average family have "the dollar left over" of Wendell Phillips, for books, and leisure and entertainment.

* * * with all the enormous enhancement of wealth in the United States, half the families of America are living below the line of comfort fixed by students of social economics, and one-third of the families of America skirt the hunger line. Although in the two years of war this country has changed its relation to the commercial world, and become a creditor nation, the day laborer in Des Moines is having as hard a time of it to supply his daily table as he ever had; in fact, many believe a harder time.

* * * * *

The Register would not put the emphasis at the wrong spot. It is much easier to spend every cent we make as a people than it is to accumulate. Moreover, it is easy to harbor unwarranted suspicions of those who are managing the accumulation. We must have accumulated capital, and we must have enlargements and improvements, and we must have money for new things. We must have faith in the men who are at the head of great enterprises. But in our zeal for this side of it, we must not overlook the actual needs of the people who do the work, nor forget that comforts in the homes of the masses are in the last analysis the test of our civilization. For however hard we may fight for world democracy we shall never have world democracy excepting as the masses of the world are given the "dollar over" that means books and music and travel and recreation.

It is perfectly true that "comforts in the homes of the masses are in the last analysis the test of our civilization." When we talk about "progress" let it be understood that comforts for the masses and leisure for the higher things of life is what is in mind. How are they to be obtained?

Why has the cost of living been rising in recent years until the day laborer in Des Moines is said to be having as hard a time to supply his daily table as he ever had? Is it because the reorganization and development of industry with great accumulations of capital in its service has failed to accomplish results, or is it because the results so accomplished have been overcome by influences coming from other industries, in which capital is not so large a factor and in which the so-called capitalistic organization is comparatively undeveloped?

It is a familiar fact that the increase of population tends of itself to make the struggle for a living more strenuous. The people of this country do not get as much for nothing as they did in an early day, when the bounties of nature surrounded them. Poorer lands must be brought under cultivation and the best soils deteriorate unless farmed with greater care. More labor is required to obtain a larger production of food and of the raw materials required in the industries. Moreover, as the cities grow distribution within them becomes more costly. It is evident, therefore, that living conditions will grow harder for growing populations unless there is such constant improvement in the methods of production as will overcome the adverse influences. If capital is required to make such improvements, nothing is gained by withholding it.

The Rising Cost of Living.

The writer of the above editorial indicates that the day laborer's chief problem is to supply his daily table, and this is precisely true, although with cotton and wool at present prices the supply of clothing is also a serious matter. With the native forests vanishing, lumber, for shelter, also costs more. Lumber is manufactured and transported more economically than formerly, and the cheapening of steel and cement has provided economical substitutes, but these gains do not offset for house-building purposes the growing scarcity of timber.

Farm machinery is much more efficient than a generation ago. The president of the International Harvester Company has recently stated that there are 1,000,000 self-binding harvesters at work in this country, and as it would take at least two men to do the binding for each harvester by hand, the self-binding attachment alone saves the labor in harvest of that many. This same newspaper, the Des Moines Register, from which the above editorial was taken, a few weeks ago, commenting upon this fact, said:

> Two million men would be necessary for the sole work of binding sheaves, work which is now accomplished by machinery without any labor save that which is employed in cutting the grain. If two million men would be required for binding the grain, how many would be needed should we be forced to go back to the use of the scythe and the flail? It would be impossible to harvest our grain crop at all, except by sending back to the country a vast proportion of the men who have gone into lines of work calculated to increase the comforts of our modern civilization.

It is unnecessary to add anything to this except the obvious comment that although farm products have gone up in prices, the masses certainly are not losers because capital has been saved up and devoted to the development of farm machinery.

One of the most promising developments of the present time is the farm tractor. Henry Ford is understood to have spent millions upon his design for such a machine, and scores of manufacturers were ahead of him in the field. We would not venture an estimate of how many millions were spent upon the farm tractor before any net returns were realized, if, indeed, any have been realized, to this time.

Great gains have been made by the use of capital in handling and utilizing the cotton crop—in ginning and compressing the staple, in the conversion of the seed, once wasted, to a valuable food product, and in the manufacture of cotton cloth, but these gains have been lost amidst the rising prices of raw cotton. One weaver now tends twenty to thirty Northrop automatic looms, an American invention, but with raw cotton at 25 cents per pound, if cloth was manufactured for nothing, it would cost more than cloth made twenty years ago from raw cotton costing under 10 cents.

Transportation Costs.

The railways have absorbed a vast amount of capital in recent years. The important ones have been virtually rebuilt in order to allow of more enconomical operation. Grades have been lowered, curves reduced, bridges strengthened, tracks improved, with the result that while in 1896 the average capacity of freight cars in use in the United States was 25 tons, in 1916 it was 44 tons; and while in 1896 the average freight train-load for all roads was 199 tons, in 1916 it was 534 tons. The gains in labor efficiency accomplished by these investments are indicated by the following figures for all the roads:

	Total Number Railway Employes.	Tons Carried One Mile. Total.	Per Employe.
1896	826,620	95,328,360,000	115,323
1906	1,521,355	215,877,551,000	141,898
1916	1,633,106	342,494,271,000	205,842

Notwithstanding the gain in efficiency of operations the Interstate Commerce Commission has found it necessary to allow freight charges upon some of the roads to be increased, in order to overcome the rising costs of operations. Total compensation paid to employes in the year ended June 30, 1916, was 200.5 greater than in the year ended June 30, 1896, and in the present year, another large increase has been granted by the establishment of the unit eight-hour day for train employes.

The railway facilities of the country are not what they ought to be, but what would be the state of the country now but for the capital that has been poured into them in the last twenty years.

In practically every line of industry important gains have been made in the last twenty years by the investment of capital, but an analysis of costs will show that these gains have been in greater or less degree offset by the rising costs of food and raw materials. This has been in the main because of the more

complete occupation of the country, and the fact that the cheap and most readily cultivated lands are gone. There is no warrant for concluding that we need to save less capital. Rather, the deduction is that we need a greater use of capital and of modern organization and management.

A Field for Capital.

Mr. V. H. Manning, director of the United States Bureau of Mines, has issued during the last month a statement concerning the wasteful consumption of coal, which is very pertinent here. He says, in part:

"Last year the United States mined 600,000,000 tons of coal, the greatest production ever witnessed in the world, and of this amount we wasted 150,000,000 tons, or 25 per cent., through inefficient use.

"As an example, in the modern, efficient power plants of the country, 20 per cent. of the heat in the coal consumed is converted into power, whereas in the small power stations the efficiency frequently drops below 10 per cent. The average efficiency of all steam power plants in the United States is probably 5 or 6 per cent. of the energy of the coal. If it were possible to elevate the average efficiency to the maximum attainable, about three times as much energy would be available.

The average efficiency of steam-power plants is very much higher than it was twenty or thirty years ago, and is improving all the time, although naturally there will never be a time when there is not a great difference between the best and the poorest. Mr. Manning does a public service in calling attention to the possibilities of economy in this respect. We gave a statement recently showing that the Pennsylvania Railroad Company had doubled the efficiency of coal in its locomotives in the last five years at an increase of about 30 per cent. in capital investment.

All of these changes involve more or less scrapping of old equipment, or which means destruction of old capital, and the application of new savings and profits. But the effect is not to make it harder for the day laborer to supply his daily table or to acquire a bath tub. On the contrary, it is by means of such investments that within comparatively recent years a home with a bath tub has been brought into the workingman's horizon. They make the difference between the lot of the laborer in the United States and in the backward countries.

Where Capital Is Scarce.

The late Professor F. H. King, of Wisconsin University, wrote a very instructive book descriptive of his travels in Japan and China, and he tells of two novel scenes which first attracted his attention, as follows:

"Everything here was strange and the scenes shifted with the speed of the wildest dream. Now it was driving piles for the foundation of a bridge. A tripod of poles was erected above the pile and from it hung a pulley. Over the pulley passed a rope from the driving weight and from its end at the pulley ten cords extended to the ground. In a circle at the foot of the tripod stood ten agile Japanese women. They were the hoisting engine. They chanted in perfect rhythm, hauled and stepped, dropped the weight and hoisted again, making up for heavier hammer and higher drop by more blows per minute. When we reached Shanghai we saw the pile driver being worked from above. Fourteen Chinese men stood upon a raised staging, each with a separate cord passing direct from the hand to the weight below. A concerted, half-musical chant, modulated to relieve monotony, kept all hands together. What did the operation of this machine cost? Thirteen cents, gold, per man per day, which covered fuel and lubricant, both automatically served. Two additional men managed the piles, two directed the hammer, eighteen manned the outfit. Two dollars and thirty-four cents per day covered fuel, superintendence and repairs. There was almost no capital invested in machinery. Men were plenty and to spare. Rice was the fuel, cooked without salt, boiled stiff, re-enforced with a bit of pork or fish, appetized with salted cabbage or turnip and perhaps two or three of forty or more other vegetable relishes."*

It is safe to say that these workers have not begun to think about bath tubs which require the services of a plumber.

The Common Interest in Capital Accumulation.

It is important that there shall be generally a clearer idea of how capital is accumulated and of the community services it renders. Mr. Manning's appeal for more economical power plants is in the public interest; he sees the waste of national wealth which is going on by coal consumption in plants which utilize only 5 or 10 per cent. of the energy, while the best plants recover 20 per cent. There is a similar waste wherever antiquated machinery or antiquated methods are used, or wherever there is artificial restriction upon production. The gains that may be made by improved processes are the incentive to improvement. Men make fortunes in business by getting their costs down faster than their competitors, not by charging higher prices. In other words, fortunes are made, not by taking wealth away from anybody, but by saving wealth which would otherwise go to waste, and when made and put back into industry they accomplish further savings.

When all this is clearly understood it will be seen that society cannot afford to diminish the incentive to improvements and that the progressive taxation upon profits, which penalizes efficiency and favors the unenterprising and inefficient, as a permanent policy, is a mistake from the standpoint of the public. As a war measure and as applying to profits enhanced by the war, such a measure may be justified, but the permanent effect would be like that of the old rack-rent system of Ireland, where the tenants had to make all improvements and the improvements were immediately made the basis of higher rents.

Recent dispatches from Washington have stated as a feature of the price-fixing program that where the same parties were interested

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*"Farmers of Forty Centuries," p. 17, published by Mrs. F. H. King, Madison, Wis.

both in the making of steel and in the fabrication of the same steel into ships, two profits would not be allowed. This statement may not have been authorized, and it is difficult to believe that a policy so short-sighted could be adopted, but it has been advocated upon the floor of the Senate. The effect of course would be to arbitrarily separate the business of shipbuilding from the business of making steel, although it is probable that important economies may be effected by joining them.

Improving Individual Efficiency.

The productivity of industry is not increased solely by the improvement of tools and organization. While it is important that every worker shall be supplied with the most effective tools, it is still more important that every worker shall be individually developed to a high degree of intelligence and efficiency, for that is not only a means to an end, but the very end itself to which all progress should be directed.

Industrial development of itself naturally raises the level of living conditions, for there is no outlet for a constantly increasing supply of commodities except by distribution into consumption. The withholding of capital from direct distribution by investing it in more and improved equipment, as we have seen, is not a permanent withholding, but eventually increases the supply of goods for consumption. But the increase can be multiplied over and over again by increasing the efficiency of the workers. Employers are coming to see that there are direct results in productivity from policies which call out the willing and interested co-operation of the wage-earners. The employers who lead in the adoption of up-to-date equipment are likely to also lead in liberal policies toward labor. It is becoming a common thing for important business houses to provide for the broad education of their employes, on the ground that they cannot afford to have inefficient help. This is a natural evolution, but one that will move with increasing rapidity as it produces results, and as the progressive element by the sheer superiority of its methods comes into larger control of industry. The employer who is not enterprising enough to have up-to-date equipment cannot survive in the long run against the competitor who has it, and the employer who does not know how to win the loyal support of his helpers will fall behind for the same reason.

There is the same division of opinion among employers as to policies toward wage-earners as there is the public mind over the question of price-regulation, and in the public attitude toward capital-accumulations. One view puts the emphasis upon immediate results, upon division of the present product, while the other view emphasizes the possibility of enlarging the product.

Cooperating For the Loan.

We have a letter from one of the leading houses in the manufacture of clothing, which tells of the steps taken to obtain the co-operation of its employes upon subscriptions to the Liberty Loan. We give an extract as illustrative of the new spirit which we believe to be significant of better relations in industry:

> We not only agreed to receive their subscriptions on easy installment payments with interest on credit balances, but increased the attractiveness of such subscriptions by agreeing to complete the payments ourselves for any employe who died before the bonds were fully paid for, and deliver same to his heirs. This feature, together with the oral explanation which I made to all the people in their work shops, resulted in very great enthusiasm, and more than doubled the number of subscriptions anticipated. The full amount from our 8,000 employes was over $200,000. Moreover, care was taken in the talks which were made to them to explain carefully the reasons for the war and the effect of their subscriptions upon the prospects of early peace. There had previously been considerable pro-German propaganda in the shop in the disguise of pacifism, which subsided in the face of the patriotic enthusiasm aroused by the Loan.
>
> Inasmuch as there may be future need for urging universal participation in the government loan, I commend the life insurance feature and thrift propaganda as means of stimulating interest in the proposition.

This picture of employer and employe cooperating for the support of the government is a pleasing one, and there were thousands of similar cases.

Lessons of the War.

The last three years have afforded a clear demonstration of how the welfare of the world depends upon current production, and that the productive capacity of all countries may be enormously increased under the pressure of a necessity which comes home to all. We appreciate now that every individual grower of the staple foodstuffs contributes to the common fund, and that all the world is interested in his efficiency. Despite the withdrawal of so many men from industry, and the vast requirements of the armies, an astonishing amount of regular business goes on. The explanation is that industry has become more efficient. Old methods, old machinery and old restrictions have been discarded, and the people are working with an energy and spirit of co-operation that did not exist before.

Mr. John Hodge, British Minister for Labor, has written of the situation as follows:

> These three years of war have driven certain conclusions home upon me, and, I believe, upon many others, both employers and labor men, in this country. The first of these is that labor must give up its old restrictive attitude. The second is that capital must become willing liberally to renumerate extra effort and extra exertion on the part of labor. Any modern nation can only reach the maximum amount of wealth and happiness by producing the maximum amount of goods. War experience has opened our eyes to what we can do in Great Britain. We shall not readily forget the lesson.

There can be no question that if all classes could have their interest centered upon the enormous possibilities which lie in perfecting the industrial organization and increasing the output of necessities and comforts, the results would be revolutionary. Discussion commonly assumes that production is a matter of routine, that it goes on about the same at all times and under all conditions, and that distribution is the thing to be looked after. The truth is that improvement in the condition of the masses depends upon increasing production, and that this is woefully hampered by friction, misunderstanding and ignorance on both sides throughout industry. The wastes of the war are very great, and great burdens will remain when the war is over, but it is well within the possibilities to meet all these losses and burdens by improvements in the methods of production.

STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS JULY 27, 1917.

(In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco	Total
Gold coin and certificates in vault	32,685	234,737	41,215	33,342	8,450	7,613	59,744	4,752	17,792	8,522	14,195	19,717	469,764
Gold Settlement Fund	8,511	120,367	20,252	45,443	43,800	7,921	33,046	23,888	11,476	39,140	8,674	22,901	405,739
Gold with foreign agencies	3,675	18,112	3,675	4,725	1,837	1,575	7,350	2,100	2,100	2,625	1,838	2,888	52,500
Total gold held by banks	45,171	373,216	65,122	83,510	53,687	17,109	100,130	30,740	31,368	50,287	24,707	45,506	919,003
Gold with Federal Reserve Agents	21,891	173,670	32,905	30,596	7,483	18,072	56,553	14,911	21,306	14,685	15,624	26,103	434,193
Gold Redemption Fund	498	5,250	450	22	254	351	316	390	338	401	170	17	9,067
Total gold reserves	67,560	552,136	98,477	114,412	60,424	35,532	157,069	46,041	53,072	65,413	40,501	71,626	1,362,263
Legal tender notes, Silver, etc	3,952	37,391	1,480	519	200	694	2,425	2,951	252	478	1,320	127	51,789
Total Reserves	71,512	589,527	99,957	114,931	60,624	36,226	159,494	48,992	53,324	65,891	41,821	71,753	1,414,052
Bills discounted, Members	13,731	19,107	9,526	7,968	14,381	5,604	20,178	11,515	10,635	11,529	4,947	9,338	138,459
Bills bought in openmark't	16,706	95,806	14,545	12,287	4,206	1,310	26,757	4,127	305	12,525	2,702	3,821	195,097
Total bills on hand	30,437	114,913	24,071	20,255	18,587	6,914	46,935	15,642	10,940	24,054	7,649	13,159	c,333,556
U. S. Governm't long-term securities	[illegible]	1,306	549	5,918	1,152	228	11,009	2,266	1,859	8,849	3,970	2,429	41,136
U. S. Governm't short-term securities	2,194	9,980	2,548	2,933	1,369	1,584	4,409	1,524	2,015	1,784	1,430	3,443	35,818
Municipal Warrants		50	158	1,100	115						46		1,469
Total Earning Assets	33,161	126,249	27,326	30,206	21,223	9,156	62,053	19,432	14,814	34,687	13,095	19,036	411,978
Due fr. other F. R. Bks. net	6,003			3,052		4,967	21,255	161				9,834	b 11,106
Uncollected items	15,258	43,686	24,247	18,577	11,200	10,660	40,218	9,574	4,901	9,699	6,521	10,175	204,756
Total deductions from gross deposits	21,261	43,686	24,247	21,629	11,200	15,627	61,473	9,735	4,901	9,699	6,521	20,009	183,650
5% redemption fund—F. R. bank notes										400	100		500
All other resources				79	97	80		271	62	23	445		1,057
TOTAL RESOURCES	126,574	759,462	151,530	166,855	93,744	61,129	283,920	73,430	73,101	110,700	61,982	110,798	2,021,237
LIABILITIES													
Capital Paid in	5,134	12,067	5,276	6,363	3,444	2,387	7,465	3,267	2,570	3,175	2,757	3,963	57,825
Government Deposits	11,635	13,113	1,945	7,671	13,180	8,242	38,446	2,474	6,008	7,374	5,726	18,208	143,032
Due to members - reserve account	72,885	444,489	87,541	108,942	36,724	25,503	150,831	45,386	36,516	65,612	28,958	59,875	1,135,456
Due to nonmember banks clearing acc't		8,451										96	8,547
Collection items	10,123	28,076	22,355	14,396	19,660	5,087	18,363	8,707	2,887	7,072	3,373	5,512	137,815
Due to other F. R. Bk's net		34,036	12,771		7,180				749	63	1,509		
Total Gross Deposits	94,641	522,035	104,612	123,009	72,754	38,832	207,640	56,751	49,312	80,121	40,764	83,691	1,424,850
F. R. Notes in actual circulation	26,484	213,182	41,425	37,462	17,546	19,910	68,612	18,462	24,296	24,945	18,461	23,097	(a)534,015
F. R. Bank Notes in circulation net liability										2,459			2,459
All other Liabilities incl. Foreign Govern't credits	308	1,518	217				8					42	2,088
TOTAL LIABILITIES	126,574	759,462	151,530	166,855	93,744	61,129	283,920	73,430	73,101	110,700	61,982	110,798	2,021,237

(a) Total Reserve notes in circulation, 534,015

(b) Difference between net amounts due from and net amounts due to other Federal Reserve Banks, 11,106: The Gold Reserve against net deposit Liabilities is 74.6%; Gold and lawful money reserve against net deposit liabilities 78.8%. Gold Reserve against Federal Reserve Notes in actual circulation, 83.0%.

(c) Bills discounted and bought; municipal warrants: 1—15 days 115,544; 16—30 days 44,850; 31—60 days 95,459; 61—90 days 73,913; over 90 days 5,259. Total 335,025.

1917

Economic Conditions
Governmental Finance
United States Securities

NEW YORK, SEPTEMBER, 1917.

General Business Conditions.

THE most important feature of the business situation is the gratifying progress made by the crops during the last month. The small grain is now harvested. Wheat is threshing out better than expected, oats are a tremendous crop, big in yield and fine in quality, and barley and rye are good. Corn only wants to be let alone by the frost to make a crop larger than the record by 300,000,000 bushels, and larger than last year's by 800,000,000 bushels. Potatoes, beans, garden products and fruits will be in abundant supply. The pack of all kinds of canned and dried goods will be much larger than usual, but is being put up on a higher basis of costs than usual.

The price of old corn in Chicago is down about 50 cents per bushel from the top, to about $1.80 per bushel, and the new crop for December delivery is down to about $1.08 per bushel. Meats, however, will be higher for some time, as many cattle and hogs have been sacrificed in an unfinished condition, on account of the high price of all kinds of feed. Hogs have sold up to $20 per hundred weight at Chicago during recent weeks upon small receipts, but from this there has been a reaction to about $18.00. Well posted persons say that there are fewer corn-fed cattle in feeders' hands than at any previous time since the beef-making industry was well established.

The cotton crop promises very well east of the Mississippi River, but has suffered from drought in Texas. It is now thought probable that the yield will be above either that of last year or the previous year, and as the South has undoubtedly raised more of the food crops than heretofore the outlook for that section is very good. A crop of 14,000,000 bales is possible, which will about meet consumptive requirements and promises very remunerative returns to the producers. The market is down several cents from the top, closing the month at about 22 cents per pound.

To sum up, the yield of agricultural products now promises to be large, and with prevailing prices the purchasing power of the agricultural districts in the coming year will be beyond all past experience.

This situation is very reassuring because it puts a solid basis under business for the coming year. It means that a great reserve of purchasing power exists in the country, more in fact than can be exercised with the present war requirements. It should put the farming industry permanently on a better basis financially. Moreover, although agricultural products will bring prices which, taken together with the large yield, will be very remunerative to the growers, the supply is sufficient to meet the needs of the population, and to give assurance that the necessaries as a rule will not average higher than during the last year, and in most cases should be lower.

The best criterion as to general trade is to be found in railway traffic, which is constantly up to the capacity of the roads, and for June was 26 per cent. above the tonnage of the same month last year. There would be more if they could handle it. The companies are straining every resource, and the public is cooperating by loading cars more heavily, but in many instances production is still held in check by the inability of the roads to move materials.

Labor troubles continue to give embarrassment, particularly in the copper mining and lumber districts of the West. Lumber production has been seriously hampered in the Pacific northwest. It is to be hoped that with prices for the common articles of food upon a more normal basis the industrial situation will be less strained.

Government Finance.

The Secretary of the Treasury in July submitted to Congress a detailed estimate of the expenditures of the government to June 30, 1918, for war and civil purposes, but not including loans to allies, which aggregated $10,735,807,000, and estimated the revenues under existing laws at $1,300,000,000. Apparently these estimates have been very considerably increased.

The following table shows the plans submitted for raising in all nearly $22,000,000,000:

	Authorized	Proposed	Total To June 30,1918
Bonds for loans to Allies	$3,000,000,000	$4,000,000,000	$7,000,000,000
Certificates of indebtedness	2,000,000,000	2,000,000,000	4,000,000,000
Bonds for general purposes	2,000,000,000	2,000,000,000	4,000,000,000
War Savings Certificates	....	2,000,000,000	2,000,000,000
Current expenses, exclusive of war	1,300,000,000	....	1,300,000,000
Pending revenue bill	....	3,000,000,000	3,000,000,000
Bonds for conversion (*)	....	538,945,460	538,945,460
	$8,300,000,000	$13,538,945,460	$21,838,945,460

(*) Panama Canal	$225,000,000
Naval construction	150,000,000
Mexican Border, D. W. Indies and Alaskan Ry.	100,000,000
Panama Canal 3s—Issued 1916	63,945,460
	$538,945,460

In the war expenditures are included $176,000,000 for the new insurance bill and $1,000,000,000 for the Shipping Board. The plan for the war savings certificates is that they be placed on sale at all post offices and be issued in denominations as low as $5 or even $1; that sales to one person be limited, probably, to one thousand dollars.

It is likely that the actual disbursement of these sums will extend beyond the present fiscal year, but the appropriations must be made in order that contracts may be authorized. The recent additions are largely for merchant shipping, which will be of permanent capital value.

The sums required are enormous but in measuring the ability of the country to raise them it is to be considered that the real problem is that of supplying at present prices the amount of equipment, materials and services which these estimates contemplate. Prices for everything are high, and the production of the country in all lines is greater than ever before. It must be sustained and increased, and our consumption for non-essential purposes must be reduced, in order that the war demands may be met.

While in the last analysis the task is that of producing war supplies for our own armies and those of our allies to the amount named, the effort is complicated by the fact that the money for making the payments must be raised in large part by voluntary subscriptions to the government's loans. The fact that the money will be paid out to our own industries simpifies the task, and beyond question makes it possible, but since the benefits of these expenditures will flow to every class and locality, it follows that every class and locality must cooperate fully in returning the funds to the Treasury.

The next loan is expected to be for $3,000,000,000 and to come on in the latter part of October.

Price-Fixing and Taxation.

Price-fixing at the hands of the government authorities and the new measures for taxation are still factors of uncertainty in business calculations. The authorities will closely supervise the movement of the wheat crop out of first hands, through the process of manufacture into flour, and through distribution to consumption, determining the profit of every handler. An elaborate organization has been formed for this purpose, mainly composed of business men who give their services without compensation, and the grain and flour dealers have accepted the plan cheerfully, agreeing to cooperate. The scheme is an emergency one, impracticable as a permanent policy, but it will have the gratuitous aid of the most expert business talent in the country, and it will give assurance to the public that there will be no speculative profits in handling wheat or flour. In the present state of public temper this assurance is worth much, even though it does not follow that the handling will be done with any actual saving to the public over the cost by the ordinary methods. The price of grain fluctuates naturally throughout the year, with prospects for crops in all producing countries, and the carrying of grain for future consumption is necessarily a speculation. When crops are good, prices decline and loss ensues to those who have stocks; when crops are poor, prices advance and gains are realized. The fluctuations are downward as often as they are upward.

The price of wheat to July 1, 1918, has been fixed at $2.20 per bushel at Chicago for No. 1 Northern Spring, or its equivalent.

The British government was able to sell wheat for a time last spring lower than it was selling in the United States because it had a stock on hand purchased months before at lower prices. But if it did not take a profit on a rising market, it would have no reserve to save itself from loss on a falling market, and in presenting its plan of operations to Parliament the government frankly admitted that it proposed to stabilize the price of bread, meeting any deficit that might arise in its operations from Treasury funds.

The price of coal has now been fixed by an order of the President, varying with different fields. The price of steel is under inquiry and may be authoritatively fixed for government use. There is every reason to believe that the authori-

ties will be guided in this policy by what they conceive to be the best interests of the public, and that they will seek to make prices that are fair to producers, but the whole policy is an experiment, and unless it is carried to extremes and the results are very pronounced it will never be known whether the experiment is successful or not. That is to say, it will never be known whether the net final results are more advantageous than the results that would have followed upon natural prices. It is not by any means certain that prices made artificially low are the most desirable. Prices have an important function in bringing supply and demand into equilibrium, adjusting them to each other.

The Senate still has the revenue bill under consideration, debating proposals to increase the levies upon incomes and profits. In the nature of this problem it is very difficult to have these proposals judged upon their merits. The advocates of extreme levies upon profits insist upon viewing book profits as on hand in cash, about to be withdrawn and devoted to the personal benefit of the shareholders, but the fact is that in the present condition of industry they are in actual use, and necessary in most cases to the effectual conduct of the industries. For the second time since the war began the Bethlehem Steel Company is now going to the public market with its securities, to raise money to carry on and enlarge its business. The enlargement of industrial capacity at this time is not something that concerns only the proprietors; these industries in peculiar degree are public industries in the sense that they are producing supplies to carry on the war. The enlargements are made upon a level of costs probably 50 per cent. above normal, and nobody knows what these investments will be worth after the war. If an industry like Bethlehem Steel puts all of its current profits into enlargements, and borrows money to pay taxes equal to 50 per cent., or more, of those profits, and after the war finds that the value of the new investment has depreciated 50 per cent., or more, or is actually unproductive, what will its position be? The profits which Senators are naming are in many instances paper profits, which stockholders have not seen and never will see, because the shrinkage in the value of inventories and plant investments will cause them to disappear.

The British Tax.

A favorite argument for high taxes has been that the British government has exacted 80 per cent. of the profits in excess of the pre-war level, "without unfavorable effects." This 80 per cent. rate was contained in the Budget submitted to Parliament last April, but it was not adopted until August and has been in effect less than a month. Evidently it is too early to report on the effects. Moreover, the British government has been at war three years, and has carried the expansion of its industries a long way, and finally, to make the situation comparable it would be necessary to know the full terms of the treatment accorded companies handling war business, and particularly in regard to profits reinvested for the enlargement of output.

The Money Market.

The money market has become firmer in the last month, reflecting the heavy fall demands which are foreseen. Five per cent. is the minimum rate for time money, while the call rate has been fluctuating around three per cent., but closed the month at 4½% to 6%.

Reports from throughout the country indicate that banks are in comfortable position, although well loaned up at the centers. Country banks are easier and expecting a great increase of deposits when the crops are moved.

The abstract of the condition of banks in the Federal reserve system on June 20th, issued by the Comptroller, shows that on that date all members held $859,421,000 in excess of the required reserves, as compared with $987,763,000 on May 1st. Country banks held an average reserve of 24.05 per cent., of which 6.56 per cent. was in vault, 8.14 per cent. was in Federal reserve banks and 8.21 per cent. was with approved reserve agents. Reserve city banks held 21.68 per cent., of which 6.31 per cent. was in banks, 8.03 was in Federal reserve banks, and 8.11 was with approved reserve agents. Central reserve city banks held 20.47 per cent.

The report of the Federal reserve banks for August 24th showed bills discounted for members down to $128,407,000, and bills bought in the open market at $159,557,000, the lowest point reached since the Liberty Loan was closed. These banks are in strong position to go into the fall season, and there should be no hesitation on the part of member banks to use their facilities to handle the legitimate fall business. It is evident that the demands upon the banking facilities of the country will be very great in the months intervening between now and the new year. A great crop has been produced, and owing to the high prices at which it will be moved approximately twice as much money and credit will be required to handle a given quantity as in ordinary years. The industries, for the same reasons, will require more working capital than ever, and as trade will be active merchants' stocks will have to be large, and will run into unusual values. Finally, there will be the new government loan, calling for an unprecedented sum. These demands altogether look formidable, and unquestionably they mean that the bankers must be alive to the task which devolves upon them, and make intelligent use of the facilities of the reserve system. All of these requirements can be met by the shifting of credit within the country, and if good sense prevails that credit will be self-liquidating.

The Bank of Charleston, South Carolina, has issued a statement recently which illustrates the situation. It says, in part:

> "The average value of our cotton crop, lint and seed is $90,000,000, and the average debt against the crop before it is gathered is $75,000,000, leaving an average surplus of $15,000,000. This year the crop is in a fair condition; prices are so much higher than usual for both cotton and seed that unless some disaster occurs we may expect from our cotton crop $165,000,000; and from what I can learn the debt this year is no larger than the average, $75,000,000, which will leave a surplus of $90,000,000. This will give all of our people more money at one time than we have ever seen before, and we ought to be thinking and making plans as to what we are going to do. I earnestly recommend that for our customers the best investment they can make is to purchase their own obligations—that is, pay their debts. If this comes to pass, all of the banks in our State will have more money than they can profitably use at home, and it will be necessary to find outlets for it."

What is true of South Carolina is doubtless true of the agricultural sections generally. If the crop moves rapidly an unusual amount of bank credit will be required for a time, but the crop will liquidate it and give a surplus for the liquidation of older indebtedness.

There need be no anxiety about the expansion of credit to handle the crops or the strictly necessary exchanges of the country, provided that everywhere the advice given in the above extract is acted upon, and the people take advantage of these high prices to pay their debts. The danger in all such periods is that people may use their new resources to assist them in going further into debt. If debt-paying is the rule, the final result of the big crop and high prices will be the release of a large amount of credit which will be available for the government loans.

The Supply of Currency.

In so far as an increased amount of currency is wanted, it should be supplied in Federal reserve notes. This is a matter in which every bank in the country should lend its cooperation. These notes are just as good in circulation as reserve money, and the latter should be withdrawn from circulation at every opportunity and forwarded to the Federal reserve banks, thus broadening the base under the credit structure.

Now that state banks and trust companies are permitted to join the Federal reserve system without surrendering any of the privileges they now enjoy, and even have the privilege of withdrawing from the system later if they choose to do so, there seems to be no good reason why a general consolidation of the banking reserves of the country should not be effected. It would not only increase the common sense of security throughout the country, which is of importance to all bankers, but it would add greatly to the financial prestige of the country in its international position. This is no time to hold back from any step which will strengthen the financial organization of the country. Each banker should do that which he knows it is in the public interest for all bankers to do.

All of the reserve banks are earning more than six per cent. on their capital now, and will soon be accumulating surplus funds which will serve to stabilize their dividends in the future.

The International Exchanges.

The foreign exchanges have been of late the occasion of no little perplexity. Exchange on the United States is now at a discount generally, in neutral countries, notwithstanding the fact that the balance of trade between this country and the rest of the world for the fiscal year ended June 30th last reached the enormous total of $3,634,828,870. The explanation is to be found in the relations between the dollar and the pound sterling. Extraordinary efforts have been put forth to sustain the pound sterling in this market. The British government has bought or borrowed American securities from its citizens on a great scale, which have been sold or pledged in this country, borrowed heavily, and shipped enormous amounts of gold to New York for this purpose, and the exchange rate has been stabilized within about two per cent. of the parity. For various reasons it has not been so well sustained in other markets, with the result that exchange dealers in Madrid, Yokahama, and other financial centers have sold sterling exchange in New York not only to settle any indebtedness those markets might have to this country on direct trade, but in large additional amounts. In short, this being the best place to realize on sterling exchange it comes here from all quarters. Any restrictions which London may place upon gold exports to other countries are evaded by selling sterling in New York and taking gold from here.

This proceeding has not been pleasing either to London or New York. The former is anxious not only to sustain the rate of exchange with New York, on account of its great purchases here, but to keep this money market easy to facilitate its borrowing. The leakage of gold from here counteracts its efforts. On the other hand, neither the Treasury authorities nor bankers of this country relish having this country's gold stock drawn on to settle the trade balance of Great Britain.

Shipping conditions in themselves, with high insurance rates, have tended to hold the export movement in check, and to raise exchange rates, and in some instances even the country to which gold was shipped has discouraged the movement, on the ground that its gold stocks were already ample and that more would aggravate the state of inflation already existing. The Scandinavian countries were the first to adopt this policy, nearly two years ago, and the Bank of Spain is now discounting

American gold coin about six per cent. Furthermore, the leading banking institutions of this country, for public reasons have declined to participate in gold shipments from this country. Although there was a handsome profit in such transactions, they have held that it was in the public interest at this time to discourage gold exports and compel the settlement of international transactions by other means.

Parties who have not understood the situation have complained of this attitude on the part of the banks, and have conducted an agitation in favor of having the Reserve banks take over the foreign exchange business, to facilitate the operations of merchandise importers, but the reason for the attitude of the bankers has been well known to the reserve banks and the government authorities.

The Treasury and the Reserve banks have no option, however, under the law, but to pay gold upon the presentation of paper money redeemable in gold, and under this condition, and with the opportunity open for profit, it was inevitable that gold would go out, and it has been moving in increasing volume, the exports for May and June being $57,697,419 and $67,164,268, respectively, the most noteworthy movements being to Spain and Japan. There has been a direct balance on trade account from the United States to Japan, but hardly large enough to care for all the gold that has been taken. The movement to Spain has been in the face of a trade balance in our favor.

London financial journals have been prodding the British government to take up the subject with the United States government, and conferences upon the subject have been had. The way has been cleared for government regulation by including coin and bullion among the commodities named in the President's proclamation of embargo, and henceforth exports can only be made as permitted by the government. It remains to be seen to what extent exports will be restricted. Evidently the problem is a very difficult one and the ultimate remedy is probably in the regulation of the trade which creates the balances, but this is a very delicate task in the present state of international relations.

No country likes to put restrictions upon the free movement of gold in the exchanges, but in time of war it is entirely proper to refuse to allow it to be taken out of the country except for payments which have official approval as in the national interest. There are transactions, legitimate in themselves, but not important enough to justify the loss of gold, which might be allowed provided settlement could be effected by the direct exchange of commodities or securities. This would be a return to something like the operations of barter, when ships were owned by merchants, and a vessel put out with a cargo and traded its way around the world, bringing back a cargo of goods saleable at a profit in the home country.

Again, all trade between countries might be settled through the governments, each government settling with its own people by means of domestic credits and the balances between the governments being settled by giving them obligations. Such an arrangement, however, would involve, almost inevitably, restrictions upon trade, confining it to transactions having governmental approval.

The British Government has approved of gold exportations direct from this country to India in settlement of our trade with that country, which suggests that this would be a good time for the United States Government to relieve itself of the great store of silver dollars, over $400,000,000 of which lie in its vaults as a quite superfluous reserve against paper currency. Those silver dollars could be more readily spared than gold, and if India is not paid in silver she will have gold.

Bond Market.

The usual midsummer dullness has been emphasized by general market conditions. Dealers report a small counter business but investors and bankers in general have been awaiting definite announcement regarding the next Liberty Loan.

According to the *Wall Street Journal* compilation the combined average of forty high grade issues is 89.19 for August 28, 1917, compared with 90.19 July 28, 1917, and 93.88 August 28, 1916.

Very little new financing has been announced and the few issues offered to the public have been in the form of short term notes. At the present time there seems to be a stronger demand for one year notes as the major portion of the financing has been confined to two year maturities.

The municipal market was quite active with a good demand from private investors, estates and institutions. This demand was occasioned in part by the talk of a taxable government loan and the fact that municipals have reached the level of prices ruling at the outbreak of the war.

The following municipal sales occurred during the month, which are of interest:

$ 3,000,000	State of California Serial 4½s.
1,000,000	State of Tennessee 1 year 5s.
1,250,000	City of Waterbury, Conn., Serial 4½s.
950,000	Westchester County, New York, Serial 4½s.
210,000	Cincinnati, Ohio, School District 20-40 optional 4¾s.
850,000	Syracuse, New York, Serial 4½s.
573,000	Nassau County, New York, Serial 4½s.
1,235,000	Cleveland School District, Serial 5% Bonds.
927,000	Des Moines, Iowa, Serial 5% Bonds.
25,000,000	New York City 3½-6 Months' Revenue Notes.
500,000	State of Oregon Serial 4s.

Industrial Service Department National City Bank.

The management of this Bank has been for some time impressed that in order to render the greatest possible service to its patrons among the manufacturing industries there should be a department of the Bank organized especially to deal with them, and equipped with a staff thoroughly qualified to understand the all-around problems which beset the American manufacturer in his business.

There are many signs indicating that production in all the industries is going to be more scientifically conducted in the future than it has been in the past. Industries are not going to grow up quite so much at random or be managed quite so much by rule-of-thumb as heretofore. They will be more carefully located, methods will be more generally standardized, relations with employes will receive greater consideration, and from the beginning of the process to the end every detail will be studied to obtain greater efficiency. Many of our manufacturers have been making good progress along these lines, but the investigations of the Federal Trade Commission show that, taking the whole body, there is vast room for improvement, even in the matter of calculating costs. A majority of them, according to the Commission, lack an adequate system of cost-keeping.

The war has had a great influence upon the industries of Great Britain and the other countries of Europe. They have been forced to make the best possible use of their man-power, and patriotism has prompted both employers and employes to be more conciliatory toward each other and more receptive toward the introduction of new machinery and new methods. The increase in production which has resulted has been a revelation and will have lasting results upon industry. The larger output per man reduces the cost of the product, and makes it possible either to lower the price of the product to the consumer, or pay higher wages, or to divide the savings between the public, the employers and the employes. The United States must not be behind other countries in these economies. The war is causing an increase in our industrial capacity, and it will be a problem to keep this capacity employed when the war demands fall off and the first urgent peace demands are satisfied. We must be able to hold our own in competition with other countries, and, furthermore, we must understand that the home demand for everything can be increased by reducing the cost. If everything we consume were halved in price we could buy twice as much, provided the reduction was accomplished by a corresponding reduction in production costs.

Of course, the matter of bank credit is important to a manufacturer. It is one of the factors which must be available to enable him to handle his business in the most economical manner, and it is evident that as a condition to granting credit freely a bank should be well informed upon manufacturing conditions. A great many banks have lost money by lending to concerns which upon a superficial showing appeared to be prosperous, and in many such instances the proprietors thought they were prosperous. On the other hand, many industries have been unable to get the amount of credit they could advantageously use because the conditions were not fully understood by the banker. Industries which were fundamentally sound have failed for want of credit at a critical time because bankers did not feel themselves sufficiently informed upon all conditions to justify them in continued support.

In order to be well informed about a manufacturing business, there is much that a banker ought to know beyond the amount invested in it, or even the "quick" assets shown by the inventory, and past profits shown by earning statements, and this other knowledge cannot be obtained by a busy bank official at his desk or even by a casual call upon the customer. The result is that there is often a lack of contact and familiarity on the part of the banker with the business which he would be glad to serve.

This is the situation which this Bank is now endeavoring to improve by establishing an "Industrial Service" department. The object in view is much broader than that of obtaining information to assist the officers in granting credit, although if this purpose is accomplished the services of the Bank to this class of patrons should be more satisfactory in the future. The Department is intended to be a reservoir and clearing house of up-to-date and serviceable industrial information. It will strive to gather in and disseminate new ideas about industrial methods and industrial conditions, with a view to keeping American business men well informed upon all developments of interest to them, at home and abroad. It will have in its service experts in industrial methods, including cost-accounting, an industrial engineer of training and experience, and such other assistants as may be found useful to carry out the general purpose. The Department is headed by a Vice-President of the Bank, Mr. F. C. Schwedtman, who has had much experience in industrial management. It is not, of course, the intention of the Bank to compete with the engineering firms who make a specialty of advice upon efficiency management, but rather to stimulate interest in the study of improved methods, give such information and counsel as can be rendered without charge, and qualify itself to render the most effective banking service. Our industrial patrons are cordially invited to make free use of

the Department and co-operate with it to the common end of making American industry lead the world.

Steam Power Development.

We gave last month a quotation from Mr. V. H. Manning, Director of the Bureau of Mines, Department of the Interior, in which he said that 25 per cent. of the coal production of the United States was wasted through inefficient use. His point was that a large proportion of the steam engine and boiler plants of the country is not up-to-date and is consuming coal wastefully as compared with results given by plants of the latest and most approved design.

Since engineering methods are always advancing, it is out of the question that all of the power-plants of the country should be at any one time of the latest design, but Mr. Manning's statement is very suggestive as to the importance to the country of improvements in its power equipment. The annual production of coal in the United States is now about 600,000,000 tons, and 150,000,000 tons of this would be saved if all consuming plants were as good as those of the best type. Perhaps the most impressive idea of this saving can be obtained if the reader will think of the labor involved in mining, handling and transporting 150,000,000 tons of coal, and of shoveling it into the fire-boxes; and of the benefits that might be derived by having that labor distributed in the other industries.

If it is interesting to calculate the savings that may be effected in the future by bringing all equipment up to the standard of what at this date is recognized as the best, it is also interesting to compare not only the best practice but the common practice of to-day with the best practice of a generation ago. Mr. Manning's statement has led us to make an inquiry along this line, and looking backward for a starting point we fixed upon the Centennial Exhibition at Philadelphia, in 1876. Doubtless many of our mature readers will remember viewing, as youths, with awe and wonderment, the great Corliss engine which stood at the center of Machinery Hall, and furnished the driving power for all the exhibits in the building. There were seats for the public about the engines; the motion of the great fly-wheels created a breeze, and the engine was the admiration not only of the non-technical public but of the members of the engineering profession from all over the world.

With the Corliss engine standing out prominently as a landmark in engine development, we appealed to President Alexander C. Humphreys, of Stevens Institute of Technology, for information as to progress in engine-building since that time. It will add a touch of human interest to the story to state that it then developed that Professor Robert M. Anderson, of the Department of Engineering, Stevens Institute, was in part influenced to his choice of a profession by seeing, as a boy, the big Corliss engine in Machinery Hall. By the courtesy of Stevens Institute we have the interesting sketch which follows.

To summarize in the briefest possible manner the progress which it records, the Corliss engine at the Centennial occupied about 54,000 cubic feet of space and consumed 2.2 pounds of coal to develop one horse-power; while a modern steam turbine of equal capacity will occupy 115 cubic feet of space and consume nine-tenths of a pound of coal to develop a horse-power, giving a saving in coal consumption of 59 per cent. According to Mr. Manning's estimate, that the average engine efficiency at the present time is 25 per cent. below the standard of the best type, the average now is well above the best of 1876; and of course the average efficiency in 1876 was much below the Corliss standard.

Even more notable than the improvement in engine and boiler efficiency is the gain accomplished by the development of power-transmission through the electric current. The transmission of power by electricity was unknown when the Centennial Exhibition was held, but in the year 1915, 51 per cent. of all the power applied to industry in the United States, outside of transportation, was delivered by electric current. And as a result of all this development the total horse-power in use in the United States, to each million inhabitants, was 482,392 in 1915, as compared with 68,182 in 1879, or an increase of more than seven-fold. The facility with which power can be transmitted by electric current does away with the necessity of generating power where it is to be used. It can be generated at the most economical spot, as at the mouth of a coal mine or the site of a water-fall, and the industries which use it may be located in a spot more suitable to them. What Professor Anderson says of all this is exceedingly interesting, and his table showing the efficiency of the different types of engines presents the story of power-development so that it can be seen at a glance.

Notes on the Development of the Use of Steam Since 1876.

By Professor Robert M. Anderson, Department of Engineering Practice, Stevens Institute of Technology.

In the center of the Machinery Hall of the Philadelphia Centennial Exhibit, 1876, was placed the large Corliss engine, driving all of the machinery exhibits.

Of the engine, *Engineering*, London, England, said after describing the exhibit: "The engine, as it stands, undoubtedly forms a grand mechanical monument, and it is most fitting that such a prominent exhibit at Philadelphia should be associated with the name of Mr. George H. Corliss, an engineer whose designs have been so extensively adopted, not only in his own country but also in Europe."

The Centennial Corliss may be taken to represent the highest steam engine development at the commencement of a period including the past forty years. This machine consisted of a pair of vertical beam engines, driving a cut gear wheel 30 feet in diameter. In passing, it may be mentioned that the latter was claimed to be the largest cut gear in existence at that time. The

engines were designed to develop collectively 1400 I. H. P. (indicated horsepower), and to be capable of being overloaded to 2500 I. H. P.

Compare this engine in size with the latest design today in steam turbines developing exactly the same horse power. The Philadelphia Corliss occupied a circular platform of 55 feet diameter, and the tops of the working beams were 40 feet above the floor. The actual floor space occupied by the engine proper was probably 30 feet by 45 feet. The total weight of engine and accessories was 607 tons. The radial flow reaction turbine designed and built by Mr. Birge Ljungström, in 1912, at Stockholm, Sweden, develops 1400 delivered horsepower. This turbine is direct-coupled to two electric generators rotating in reverse directions. The over-all length occupied by the turbine and generators is but 17 feet, 5 inches, the greatest diameter is 4 feet 2.5 inches, and the maximum height to the top of the governor 5 feet 6 inches. The size of the turbine proper —the portion to be compared with the Corliss engine— is but 5 feet 1 inch long, 4 feet 2.5 inches in diameter, and 5 feet 4 inches high; or 115 cubic feet against 54,000 cubic feet for the engine of 1876.

As a matter of interest, the size of the 1400 H. P. Ljungström turbine proper is but 28 inches diameter by 21 inches long, and the running discs carrying the reaction blades weigh but 265 and 303 pounds respectively.

The boiler plant for the Centennial engine consisted of 20 vertical Corliss boilers, rated at 70 H. P. each, while today single settings of 2500 H. P. are not uncommon, and some boiler units are built as large as 4000 H. P.

The 1876 simple condensing Corliss, using steam at 70 lbs. per sq. in. without superheat, and with a condenser vacuum of 26 ins. of mercury, operated on a steam economy of 20 lbs. of steam per hr. per I. H. P. or 2.2 lbs. of coal per hr. per I. H. P. The full load (1405 delivered horse power) steam economy of the 1912 turbine using steam at 162 lbs. per sq. in. gage, with 297° F. superheat, and condensing to 28½ ins. vacuum, was 8 lbs. per hr. per D. H. P. (delivered horsepower), or 0.9 lbs. of coal per hr. per D. H. P.

The increase in steam engine economy is, fundamentally, due to obtaining the highest working range of thermal units in the steam in passing through the engine or turbine or—in other words—to transform the maximum number of thermal units into mechanical work, in expanding from a less to a greater volume with the minimum condensation in the traverse through engine or turbine. The increase in boiler economy is due to a variety of factors; perfect combustion of fuel with minimum supply of air, minimum radiation losses, superheated steam, maximum heat in feed water, and minimum heat rejected in chimney gases.

Contributing Arts.

Before taking up the improvements in the use of steam for producing power, developments in the contributory arts should be given credit. For instance, prior to 1888 animal and vegetable oils were used entirely in lubrication. The theoretical advantages of high steam pressure and superheated steam were for a long time appreciated, but it was not until a lubricant was found that could withstand the high temperatures, that the use of superheated steam became feasible. The improvements in the fabrication of iron and steel, the development of the present day steel alloys, together with the application of heat treatment, have made possible the higher pressures, the lighter weights and the higher rotative and reciprocating velocities, all of which contribute to the economy of operation and reduction of fixed charges.

As already noted the steam pressures have increased from 70 lbs. per sq. in. to over 200 lbs. per sq. in. in some cases; and in steam motor cars and aeronautic motors, the pressures are as high as 500 lbs. per sq. in. gage.

In reciprocating engines the rotative speeds have been as high as 400 R. P. M. (revolutions per minute), and the piston speeds 950 feet per minute. In steam turbines the range in revolutions per minute extends from 185 R. P. M. in the turbines of a large ocean liner to 30,000 R. P. M. in the smallest size DeLaval, 3600 R. P. M. being a common rotative speed in medium size electric station practice.

One of the large Atlantic liners has four Parsons turbines developing 18,000 shaft horsepower each. In central station practice the largest reciprocating engine units installed have been 10,500 H. P., while the largest steam turbine units develop 50,000 H. P. at 1500 R. P. M.

Surviving Types.

Automatic cut-off engines of the Corliss type have been in use over 60 years, and are today, in many modified forms among the best examples of high efficiency stationary engines. Another type which has survived through an even longer period is the marine beam engine invented and designed, in 1844, by Robert L. Stevens and his nephew Francis B. Stevens. Some of the largest river boats are being driven, at the present time, by engines of this type with very slight modifications.

It is interesting to note that the first departure from the beam engine, in ferryboat service, was made by another nephew of Robert L. Stevens, the present Col. Edwin A. Stevens. What was a novelty in the ferryboat *Bergen* (1891) is common practice in ferry service today. This consists of using vertical compound marine engines driving two screws, one aft and the other forward, one pushing and the other pulling, by means of a shaft extending the full length of the hull.

In this country the engines most extensively used, especially in small sizes, have been simple plain slide valve non-condensing engines. These machines, even in normally good condition, are fearfully inefficient, averaging about 5.33 pounds of coal per hr. per D. H. P., or delivering but 3.3 per cent. of the energy in the fuel.

A number of engines designed for mill power plants have given economies equal to the Corliss. Of these the Putnam, a favorite mill engine throughout New England in the '70's and '80's, used governor controlled poppet valves. Engines of this class were more common in Europe than in this country, but the use of poppet valves has been revived here since the introduction of highly superheated steam. Another favorite class has been the automatic cut-off engine using gridiron valves. There have been a number of good examples, among them being the Brown, Green, Rollins, Slater and Wheelock engines.

High Speed, Reciprocating Engines.

The introduction of the high speed reciprocating engine dates from shortly after Mr. Edison's invention of the incandescent lamp and development of the direct-current generator in 1881. The isolated lighting plants, followed by small lighting and power plants, gave an impetus to shaft-governed automatic cut-off engines, allowing of higher rotative speeds than were attainable with drop cut-off mechanisms. Among these were: the Buckeye, the Porter-Allen, the Fitchburg, the Armington and Sims, the McIntosh and Seymour, the Ball, the Westinghouse, the Willans, and many others. These were built simple and compound and were operated either non-condensing or condensing. They varied in economy from 3.6 lbs. of coal per hr. per D. H. P. for simple non-condensing to 2.15 lbs. of coal per hr. per D. H. P. in compound condensing types.

Up to date the highest economy developed in reciprocating engines has been attained in the Stumpf (Straight) or Uniflow engine, obtaining a D. H. P. on 1.08 lbs. of coal per hr., this being in a 300 H. P. engine with an initial steam pressure of 130 lbs. per sq. in. absolute, and superheat of 261° F. This record has been equalled by performances of stationary triple-expansion

engines, using steam at 170 pounds per square inch absolute and 203° F. superheat. The highest of all steam engine efficiencies so far reached has been obtained by the Wolf tandem-compound *"locomobile"* which consists of an internally fired through-tube boiler, having the engine combined so that the cylinders are jacketed by the final pass of the hot gases flowing to the stack—in other words, the cylinder projects into the smoke box. The initial steam pressure is from 175 to 225 lbs. per sq. in. absolute, is superheated to 800—850° F. before entering the high pressure cylinder and again superheated to 450—500° F. before entering the low pressure cylinder. The feed water is heated in an economizer in the breaching. The coal consumption of 1 lb. per hr. per D. H. P. is common practice and 0.8 lb. per hr. per D. H. P. has been attained.

The Steam Turbine.

The reaction type of steam turbine, known under his name, was first introduced in England by the Hon. Charles A. Parsons in 1884, and was introduced in this country by the Westinghouse Company in 1895, but it was not until about 1900 that it met with general approval. The DeLaval impulse turbine was introduced in its present form in 1889. The compound velocity impulse turbine, known as the Curtis, was introduced in this country by Mr. Charles G. Curtis about 1896. Since their introduction there have been many modifications and combinations of these types, better fitting their application to various power developments. For central station work the steam turbine has replaced the reciprocating engine. In fact the turbine has the advantage in all electric generation, especially in the larger outputs. This is not, however, on account of better fuel economy, since for the same grades of machinery and equal ranges of temperature, pressure, etc., there has been found no appreciable difference in economy between the best turbines and the best reciprocating engines, other characteristics influencing the preference. The real reason for the replacement of the engine by the turbine has been the greater compactness of the latter, thus resulting in a smaller investment in real estate.

Boiler Efficiency.

There has been marked improvement in boiler efficiency since 1876. The combined efficiency of furnace and boiler, being the ratio of delivered energy in the steam to that available in the fuel, ranges in coal fired boilers from about 55 per cent. to 75 per cent. With liquid (oil) fuel and powdered coal, 80 per cent. is attainable. The most remarkable and promising development, the restriction being that the fuel must first be transformed into a gas, is the Bone system, of so-called "surface combustion." This consists in burning a perfect mixture of gas and air in boiler tubes filled with porous refractory material, the result being incandescent combination, with no radiation or excess air losses. An efficiency of 94 per cent. has been attained.

Engine and Boiler Efficiency.

The accompanying table presents comparative data of various engines and turbines, based on the latest and best authenticated performances available. In order to avoid confusion, a single basis of comparison has been selected, namely, delivered or brake horse power. The first column gives the steam economy in pounds per hr. per D. H. P.; the second column gives the economy in pounds of coal per hr. per D. H. P., the third the ratio of energy delivered to that supplied in steam, or the efficiency of the engine alone. The fourth gives the ratio of the delivered energy to that available in the fuel or the efficiency of engine and boiler combined. And the fifth and last column gives the ratio between the delivered energy compared with that of a perfect engine working on the Rankine cycle.

Type of Engine.	Steam per hr. per D.H.P. lbs.	Coal per hr. per D.H.P. lbs.	Ratio delivered energy to that in the steam—%.	Ratio delivered energy to that of the coal—%	Ratio delivered energy to that of a perfect engine—%
	I	II	III	IV	V
Simple throttling non-cond. engine....	48.0	5.33	4.25	3.30	39.2
Simple automatic shaft govrn..........	38.0	3.60	6.58	4.60	47.8
Simple Condensing Corliss	19.75	2.15	11.10	8.33	53.1
Comp. Cond. Automatic Shaft Gov.	19.75	2.15	11.80	8.90	55.6
Simple Condensing Poppet	15.50	1.72	13.12	9.80	47.6
Marine Triple	14.5	1.65	15.5	11.00	53.4
Marine Turbine	11.4	1.40	18.6	13.00	61.5
Land Turbine	10.6	1.30	20.0	14.0	66.2
Comp. Cond. Corliss...	10.05	1.11	20.2	15.0	72.2
Land Triple	10.08	1.12	19.8	14.6	65.5
Uniflow (Stumpf) Simple	9.0	1.08	22.1	16.8	73.1
Wolf Compd. Locomobile	8.9	1.00	22.4	17.5	74.1
Ljungström Turbine ..	8.0	0.91	24.4	18.3	74.7

Development of Electric Transmission

For the most economical generation of power it is necessary to employ large units conveniently located in regard to fuel and condensing water supply. The ultimate utilization of power, however, is usually in small amounts at many distant points. An essential element in the advance of steam engineering in the last forty years has therefore been the development of a highly efficient and adaptable system of power transmission—to wit, by *electricity.*

The early stations of Edison (1882) were primarily for electric lighting. Gradually electric motors were connected to the systems; and as their convenience became evident, their use grew until now-a-days the industrial application of electric power has become a broader field than that of lighting.

The Edison system employed direct current at the comparatively low voltage suitable for incandescent lamps, which limited the economical distance to which power could be transmitted to about one-half mile. The advent of the alternating-current system a few years later (1886) immediately extended the range of the electric station, for it permitted the transmission of power at much higher voltages with a stepping-down of voltage at the point of utilization by means of an *alternating-current transformer.* The importance of being thus able to change the voltage of a system by a stationary apparatus having high efficiency even in small sizes may be judged from the statement made a few years ago by Prof. Chas. F. Scott: "If we were to trace the electric development of the past twenty-five years, we should find the transformer as the simple factor which has determined the whole course of that development."

The early alternating-current plants were single-phase and no type of motor was then available for operation from them. The announcement of the Tesla induction motor in 1888, operated by polyphase alternating current was followed by the gradual change to polyphase systems; until at the present time practically all electric power is generated and transmitted as high-voltage polyphase alternating-current power. In cases where direct current is particularly adapted, it is readily converted from alternating current by means of rotary converters, thus entailing no limitation on alternating-current generation and transmission.

Flexibility and Convenience of Electric Transmission.

Subsequent advances in electrical engineering were largely concerned with such improvements in the design of transformers, transmission lines, protective devices, etc., as to permit successive rises in the operating voltage; for the distance to which power can economically be transmitted increases directly with the voltage. The original Edison voltage of about 100 volts was later doubled by the use of the three-wire system. The alternating-current system multiplied this immediately by five or ten. In 1891 a transmission voltage of 10,000 volts was achieved. Now several systems are operating at over 100,000 volts. While the early systems were confined to a single city or part of a city, we now have single transmission networks extending over many states and electric power being transmitted in block for hundred of miles. Engineers are looking forward to a universal distribution network covering the entire country, power being supplied to the system at various suitable points, such as the mouths of coal mines and natural hydroelectric sites, and power being withdrawn for utilization at points best suited for the industries, for railways and for electric lighting. Such a universal system would be analogous to the system of interconnected railways, employing a standard gage track and interchangeable rolling-stock, which we now take as a matter of course.

In recent years, the rapid growth of electric power systems has been largely due to the replacement of inefficient and inconvenient prime movers combined with mechanical transmission, by electric motors supplied from large generating plants. The U. S. Census reports show that the total horsepower of electric motors used in manufacturing increased nearly *ten times* in the decade 1899-1909. An important feature of electric drive, not measurable in terms of saving of fuel, has been its greater flexibility, leading to increased production and consequent reduction of overhead charges.

Source and Distribution of Power.

The following power statistics based on the Thirteenth U. S. Census report will be of interest. The power used in transportation is not included:

Year	Total Horsepower per each 1,000,000 of Population	Percentage of Distribution of the Total Power: Steam	Water	Internal Combustion	Through Electric Motors
1915	482.392	61.2	24.4	14.3	51.0
1909	203,163	76.0	9.8	4.0	25.8
1904	160.760	80.3	12.2	2.1	11.8
1899	132,875	80.6	14.4	1.3	4.9
1889	94,832	77.1	21.1	0.15	0.26
1879	68,182	64.1	35.9	....	....
1869	60,846	51.8	48.2	....	....

The following table giving the percentage of increase of the various prime movers and electric motors during ten year periods is taken directly from the Thirteenth U. S. Census Report:

Period	Total Horsepower	Steam	Water	Gas	Electric Motors
*1915—1909	162.3	111.2	557.7	831.9	5032.0
1909—1899	84.9	74.4	25.4	181.1	877.2
1899—1889	70.0	77.7	15.9	214.5	3066.1
1889—1879	74.1	109.6	2.4	....	.....
1879—1869	45.4	79.8	8.4	....	.....

* Six years—(Rushmore).

Below is an estimate of the distribution of power in 1915, as made by Mr. D. B. Rushmore:

	Horsepower	
Horses and mules.............	25,000,000	
Automobiles	25,000,000	
Steam and naval vessels........	5,000,000	
Steam railways	50,000,000	
		105,000,000
Irrigation	500,000	
Mines and quarries............	6,000,000	
Flour, grist and saw mills......	1,250,000	
Manufacturies	25,000,000	
Central stations	8,000,000	
Isolated plants	4,250,000	
Electric railways	4,000,000	
		49,000,000
		154,000,000

The figures 482,392 total horsepower per one million of population in 1915, given in the first table of power statistics, is the sum of the last seven items of the above list divided by 101,577 million, the total continental population in 1915. All other items in the two tables are taken directly from the Census Report.

The Service of Capital.

The development of the steam engine illustrates very clearly the part which capital plays in community progress. A steam engine is the servant of the community, no matter who owns it, and the improvements upon the engine, the changing over of power plants to bring them up to date, and the construction of new power plants, constantly absorb an enormous amount of new capital. Into such enterprises the profits of business largely go, while the resulting benefits go to the entire community. The man without property, who spends every dollar of his income the same week he receives it, is able to buy more with his wages because steam engine efficiency has been doubled in the last forty years.

When this employment of wealth is understood it will be seen that there is a very general misapprehension in society about its real distribution. The entire community is the ultimate beneficiary of all wealth invested productively, just as the public is the ultimate beneficiary of all the earnings of the Federal reserve banks above the six per cent. which they are allowed to pay out in dividends. There are no restrictions upon the earnings of these banks, or the charges they shall make, but after they have paid six per cent. in dividends and accumulated certain reserves, all the earnings must go into the public treasury. This is done by statute law, but natural law disposes of a rich man's earnings in practically the same way. He may draw out what he likes for his living expenses, but all that he puts back into industry is devoted to the public. This is an inevitable distribution, fixed in the constitution of things, and progress would be much more rapid if this natural law was recognized.

Making Good War Losses.

The world is suffering frightful losses through the war, and people are wondering what the effects of these gigantic debts will be

upon the earnings of industry and the welfare of the peoples. We may learn something about this from the experience of the past. "It is our improved steam engine," wrote Francis Jeffrey in the *Edinburgh Review* in 1819, "that has fought the battles of Europe, and exalted and sustained, through the late tremendous contest, the political greatness of our land. It is the same great power which enables us now to pay the interest on our debt, and to maintain the arduous struggle in which we are still engaged with the skill and enterprise of other countries less oppressed with taxation."*

The steam engine which helped England bear the burdens of the wars with Napoleon was a poor affair compared with the engine of to-day, but even the latter, as Mr. Manning and Professor Anderson have indicated, may have its average efficiency in practice greatly increased. Beyond these prospective gains are those which lie in other sources of power, and in all the improvements in industrial equipment which are only partially introduced, or as yet only forming in the minds of inventors. And more important than all these are the possibilities which lie in more thoroughly organized and harmonious industry, the development of intelligence and efficiency among the people, and the spread of a better understanding of common interests. We must look to these changes for gains in production which will enable society to overcome the losses of the war, and repeat the progress accomplished by the original application of the steam engine to industry.

* Quoted by Professor Charles Downer Hazen, in "Europe since 1815," p. 408.

STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS AUGUST 24, 1917.

(In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco	Total
Gold coin and certificates in vault	26,544	229,517	28,739	29,869	[illegible]	7,007	40,115	4,337	17,092	8,469	13,681	15,153	426,751
Gold Settlement Fund	17,553	117,279	26,867	54,347	30,798	5,684	46,481	25,678	7,871	38,263	6,025	20,221	397,067
Gold with foreign agencies	3,675	18,112	3,675	4,725	1,837	1,575	7,350	2,100	2,100	2,625	1,838	2,888	52,500
Total gold held by banks	47,772	364,908	59,281	88,941	[illegible]	14,266	93,946	32,115	27,063	49,357	21,544	38,262	876,318
Gold with Federal Reserve Agents	25,822	206,898	32,161	32,121	8,781	18,902	70,007	15,953	19,292	14,476	15,636	28,487	488,536
Gold Redemption Fund	500	2,500	700	44	850	602	244	382	589	522	427	15	7,375
Total gold reserves	74,094	574,306	92,142	121,106	48,494	33,770	164,197	48,450	46,944	64,355	37,607	66,764	1,372,229
Legal tender notes, Silver, etc.	3,724	39,406	1,204	491	131	653	3,413	1,593	347	334	1,153	91	52,540
Total Reserves	77,818	613,712	93,346	121,597	48,625	34,423	167,610	50,043	47,291	64,689	38,760	66,855	1,424,769
Bills discounted, Members	16,959	15,327	9,762	5,950	13,691	5,690	12,757	8,657	12,727	12,206	6,942	7,739	128,407
Bills bought in open mark't	17,544	49,898	18,608	20,026	2,384	1,608	19,601	5,461	2,281	11,504	1,985	8,657	159,557
Total bills on hand	34,503	65,225	28,370	25,976	16,075	7,298	32,358	14,118	15,008	23,710	8,927	16,396	(c) 287,964
U. S. Governm't long-term securities	610	2,805	549	7,918	1,192	704	12,062	2,255	1,859	8,849	3,970	2,453	45,226
U. S. Governm't short-term securities	2,194	3,538	2,548	2,918	1,969	3,522	3,360	1,465	1,554	1,784	1,868	3,760	30,480
Municipal Warrants			131	1,055							46		1,232
Total Earning Assets	37,307	71,568	31,598	37,867	19,236	11,524	47,780	17,838	18,421	34,343	14,811	22,609	364,902
Due fr. other F. R. Bks. net	639					1,416	22,253	586		458		3,033	(b) 243
Uncollected Items	14,441	58,652	23,539	16,714	12,417	9,421	27,354	10,011	5,076	10,739	8,905	8,118	210,387
Total deduction from gross deposits	15,080	58,652	23,539	16,714	12,417	10,837	49,607	10,597	5,076	11,197	8,905	11,151	210,630
5% redemption fund against F. R. bank notes										[illegible]	100		500
All other resources						[illegible]		10			179	84	339
TOTAL RESOURCES	130,205	743,932	153,483	176,178	80,278	56,850	264,997	78,488	70,788	110,629	62,755	100,699	2,001,140
LIABILITIES													
Capital Paid in	5,373	12,123	5,277	6,365	3,470	2,507	7,651	3,260	2,524	3,203	2,757	3,974	58,484
Government Deposits	9,112	4,126	1,809	6,287	5,578	1,021	11,245	3,071	5,535	3,446	3,042	5,700	59,972
Due to members—reserve account	72,319	420,957	70,694	104,649	37,275	26,740	150,525	43,762	35,800	[illegible]	29,980	61,570	1,121,129
Due to nonmember banks clearing acc't		30,924					1,746					263	32,933
Collection Items	13,745	24,841	26,250	13,729	10,671	4,794	18,226	7,442	2,517	7,283	3,659	4,798	137,955
Due to other F. R. Bk's net		15,425	[illegible]	2,788	2,713				139		589		
Total Gross Deposits	95,176	496,273	105,241	127,453	56,237	32,555	131,742	54,275	43,991	77,587	37,270	72,331	1,351,989
F. R. Notes in actual circulation	[illegible]	224,151	42,728	42,358	20,518	21,788	75,537	20,953	24,227	24,344	22,728	24,394	(a) 573,049
F. R. Bank Notes in circulation, net liability										5,473			5,473
All other Liabilities incl. Foreign Govern't credits	333	11,385	[illegible]	[illegible]	[illegible]		67		46	22			12,145
TOTAL LIABILITIES	130,205	743,932	153,483	176,178	80,278	56,850	264,997	78,488	70,783	110,629	62,755	100,699	2,001,140

(a) Total Reserve notes in circulation, 573,049.
(b) Difference between net amounts due from and net amounts due to other Federal Reserve Banks, 243: The Gold Reserve against net deposit Liabilities is 76.0%; Gold and lawful money reserve against net deposit liabilities 80.6%. Gold Reserve against Federal Reserve Notes in actual circulation, 86.5%.
(c) Bills discounted and bought; municipal warrants: 1—15 days 89,809; 16—30 days 55,667; 31—60 days 96,827; 61—90 days 43,718; over 90 days 3,175. Total 289,196.

1917

Economic Conditions
Governmental Finance
United States Securities

NEW YORK, OCTOBER, 1917.

The War Situation.

THE war situation from a military standpoint does not change much from month to month, but except on the northern section of the Russian front recent changes have been favorable to the Entente Allies. The season is now so far advanced in Russia that no large movements of troops are likely before spring, and in the meantime it is hoped that some progress will be made in the establishment of internal order in that country. The fact that civil war has been averted thus far, although at one time seemingly inevitable, affords ground for hope that the national spirit will hold the people together, and in time evolve a responsible and effective government. At present the country is helpless, unable to use its energies or resources, because disorganization is general. The same type of agitators who are strong enough even in the United States to embarrass the government and impede the industries, are dominating the situation in Russia.

The Peace negotiations of the Pope have brought no tangible results, and people who understand the purposes of the Entente Allies do not see how a basis for definite negotiations can be reached until the attitude of the central powers shows material change. Nobody is going to treat with the latter as victors, or enter into conferences with them without more definite guarantees as to the future than their governments as at present organized are able to give. Meanwhile public opinion the world over is concentrating against Germany. China is offering to send troops; Argentina, shocked by the perfidy of Germany's diplomatic representative, is at the point of breaking off relations; Peru is in the same position, and South America is likely to be solid on the issue. All of this has a moral influence beyond any probable military significance, although these countries are able to contribute military and naval forces. The German people are a practical people, and planning even now for the recovery of their foreign trade. How can they hope for trade in a world of enemies? This world antagonism is not against German science, German industry or German commercial enterprise, which are appreciated as beneficial to all countries, but against German militarism, and this fact must be evident in time to the German people.

The United States has been in the war by declaration now six months, but its weight has not yet been felt on the battle-front, and will not be for months to come. But troops are being made ready for action, the war budget of the Treasury for this year is as large as Germany's expenditures in the last three years, and the industries of this country are being pushed to their utmost capacity to furnish equipment and supplies for next year's effort. These preparations, as the President has repeatedly said, are not for the aggrandizement of this country. No territory or indemnities are sought for ourselves. The United States is in the war to vindicate the public law of nations and establish it firmly upon principles of justice and democracy. It is to be hoped that peace may come soon, but after the horrors of the last three years the people of this country will support their government in its declaration that peace must be gained upon an enduring basis. This government, it may be assumed, has more information about the attitude of the German government than is obtainable from the Chancellor's letter to the Pope.

The Business Situation.

Trade is generally active, and showing the usual increase as we enter the autumn. Retail absorption continues large, but the increase in bank clearings, about 25 per cent. over a year ago, is scarcely enough to cover the rise of prices. The influence of the war is over the whole situation, government orders taking precedence over private business and obscuring to some extent the volume of normal demand. The favorable crop situation has inspired confidence, the feeling throughout the interior being that with the great purchasing power possessed by the agricultural community prosperous times are assured for another year.

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With prices on a very high level merchants are cautious about buying for next spring deliveries, but current trade is brisk. Cotton goods are fifty per cent. higher than a year ago, but production is readily absorbed. Government purchases are an important factor in woolens and the production of cloth is limited by the supply of wool. It is hoped that the British government will release further consignments from Australia. Sales of western wool are reported at 70 cents per pound.

Whether the end of the war will bring lower or higher prices is a debated question. On general principles it is assumed that when peace is restored and the armies are returned to industry, production will be increased and prices will eventually tend to lower levels, but it will be some time before industry is reorganized, and meanwhile stocks will be very low everywhere. Moreover, the first effect of starting up the industries will be to create a strong demand for raw materials. It has been accepted that the central countries of Europe will be eager buyers of cotton and wool as soon as their markets are open.

The Crops.

The most important factor in the business situation undoubtedly is the crops, and interest for the past month has centered upon the progress of corn. The acreage in corn this year is the largest ever planted, but planting was delayed by a backward spring and there has not been enough hot weather to bring the crop up to normal growth at any date. Frosts on the 9th and 10th of September touched it lightly in some sections, but the great bulk of it is still unharmed and probably most of it is now past danger. More is brought over the line every day of fair weather, but a week or two more without frost is wanted to enable the country to realize on the really grand prospect which the acreage and stand have afforded. Probably one week more of good weather will assure as large a crop as the country has ever made. If, fortunately, frost does not work further mischief, the corn yield will go far to ease the food situation for the coming year.

A good crop of corn is usually expected to assure a good supply of meats at moderate prices, and particularly of hog products, but this year the available supply of stock for feeding has been cut down by the extremely high prices which have ruled for corn. If this crop makes 3,000,000,000 bushels a larger share than usual must be used for human food, and this will release wheat for export.

Following the short crop of corn a year ago, farmers sacrificed their stock animals, and for the last two months the live weight of hogs received at western markets has been only 65 per cent. of the ten year average. Along with this falling off of marketings we are in the midst of an enormous export movement. The average yearly exports of meats for 3 years prior to the war were 2,574,632 lbs. of fresh pork, 377,667,667 lbs. of hams and bacon. The exports for the year ending June 30, 1917, were 50,429,275 lbs. of fresh pork and 933,811,642 lbs. of hams and bacon. The average annual shipments of all kinds of meats for the 3 years preceding the war were 486,837,839 lbs. For the year ending June 30, 1916, the exports of meats totaled 1,323,779,731 lbs. and for the year ending June 30, 1917, the exports of hog products alone totaled 1,499,476,444 lbs.

During the past month, corn-fed beef cattle have sold at $17.85 per hundredweight, hogs at $19 and lambs at $18.35 on the Chicago market. All of these are record prices, except that hogs touched $20 a few weeks earlier. In September, 1916, the top figures were $11.50 for cattle, $11.60 for hogs and $11.40 for lambs. At present prices there is strong temptation to farmers to sacrifice breeding animals, but there is good reason to believe that in the long run it will pay better to stay in stock. Grain prices may fall rapidly after the war, but meats are likely to bring high prices for some years to come.

All accounts of the wheat crop say that it has threshed out a fine quality and a yield rather better than expected. The same reports come of the Canadian crop, which is now estimated at 250,000,000, against an earlier estimate of 225,000,000. The oats crop in this country is the finest ever grown, yield and quality both considered. Two other staple food crops, beans and potatoes, have also scored record yields, while fruit and vegetables generally are in large supply. Altogether, Nature has probably never been more generous, and the farmers, considering the shortage of labor, have made an extremely good showing.

Fall plowing is already well advanced, and the prospects are that under the minimum price guaranty of $2.00 per bushel the largest winter wheat crop on record will be sown. Recent rains are favorable to giving it a good start.

Meanwhile, to help out before our next wheat crop will be harvested, it is good to know that the crop of Argentina, which will be harvested in December, is very promising. Australia has 150,000,000 bushels of wheat in store from the last two crops, and another crop coming on this winter, but the shortage of shipping makes it difficult to move grain from either Australia or Argentina.

The cotton crop has suffered deterioration during the month, from drought in Texas, and insects in other sections. The crop, like the corn crop, had a late start, and it has been backward all of the season. The visible supply is nearly 1,000,000 bales lower than a year ago. The price at southern markets is around 24 cents per pound.

The Labor Situation.

The labor situation is disquieting in all parts of the country, and but for the good crop yield, which gives promise that food-stuffs will not generally go above present levels, it would be alarming. It is not surprising that with high prices prevalent on all sides wage-earners should claim more pay, but the disquieting thing is that higher wages mean still higher prices, and thus we travel in a circle. At last the explanation is that the country is trying to do more work than there is labor to do it with. A vast amount of work is being done under rush conditions for the government, and the contractors have offered wages that would bring labor out of the regular industries. Sixteen cantonments have been built in different parts of the country at a cost of $150,000,000, in three months, and about 8,000 to 10,000 workmen have been employed on each. The influence of this upon the labor situation has been widespread. Numerous shipyards are under construction, steel works and munition plants are crowded with orders and hundreds of new coal mines are struggling to get a share of the labor supply. The point has been reached where it is a serious question whether any further construction work should be done unless directly required by the war emergency. Where is the use in enlarging capacity when the present capacity of the industries cannot be manned? It may seem to an individual that he can enlarge his business profitably, but if he can only operate the new capacity by hiring labor away from other equally important work there is no gain, and the entire level of costs is being constantly raised by this process. It is reported that the government in some instances has taken steps to prevent its contractors from hiring labor away from each other, where all were working on a cost plus percentage basis, but something like that competition is occurring all around the industries. A movement to check it would probably be resented by the wage-earners, and like all price-fixing is open to serious objections. The real remedy all around is indicated by the high wages and prices: it is for the public to curtail consumption, in order that labor may be released for the war work.

The United States Steel Corporation has led off with another wage advance of 10 per cent., and the other steel companies are following. The coal miners, with whom a liberal settlement was made in April, are insisting upon another advance. The cost of living is not higher than it was in April, but the wages paid in other industries make the miners discontented; moreover, it is said that a shortage of cars, cutting down the working time, is a grievance.

In the textile industries of New England a movement is on for a further round advance in wages.

The railway trainmen achieved a great victory last March by establishing the unit eight-hour day in train service. Train runs have remained practically unchanged, because they could not be changed except by moving division points or running lighter trains, which would increase costs more than the payment of overtime. The effect, as predicted, has been to add greatly to the overtime. It is understood that further requests from the trainmen are in preparation.

The final effect of this situation in the manufacturing industries is to constantly attract labor from the farms, thus curtailing the food supply, enhancing the cost of living in the cities and seemingly furnishing a reasonable basis for further demands by the wage-earners. We say "seemingly" because it is evident that at some point in this circle an influence should develop for the return of workers to the farms. Raising wages in the cities will never compensate for declining supplies of foodstuffs, if the higher wages continue to draw labor from the farms.

The Railways.

The railways are handling more traffic than ever before and report an encouraging degree of coöperation on the part of shippers in loading cars to capacity and in prompt handling. Railway men are pleased with the results of combined management, by which the interests of individual lines are subordinated and traffic is handled solely with a view to the most expeditious results. The outlook for handling the traffic this fall and winter, however, and particularly the coal tonnage, is giving a great deal of concern.

Gross earnings of all roads for July were $333,407,171, against $289,842,166 last year, an increase of 15 per cent., but net earnings increased only from $103,170,216 to $106,337,406, or 3 per cent. For the seven months of this calendar year net earnings for all roads were less than for the corresponding months of 1916, and the eastern lines lost $39,086,123 from net, while their gross revenue increased $78,584,186.

The two big systems of the East, Pennsylvania and New York Central, have suffered severely. In the seven months Pennsylvania's gross earnings rose from $131,283,993 to $145,320,244, while its net, after operating expenses and taxes, fell from $31,332,061 to $26,797,697. New York Central (excluding Boston & Albany) gained $6,145,610 in gross revenues, and in net fell from $22,173,341 to $11,307,857. Its net revenues were nearly cut in two, and as a result its stock sold down during the past month to 74¾, the lowest price recorded since 1875. Even Pennsylvania, the best sustained stock on the list, and with a property whose reproduction cost would be high above its capitalization, fell below par. The Western roads have not fared so badly, but the railway

situation demands the earnest attention of the country. The companies have no control over their revenues, and are almost helpless in dealing with expenditures.

The Money Situation.

The demands upon the banking system at this time are very great. The situation is in marked contrast to that of the first year of the war, when deposits were a burden. Even yet among the banks of the smaller towns in the interior, out of the manufacturing districts, the banks find it difficult to place their funds locally, but there is no such difficulty at the centers. The high prices of materials and goods and the delays in transportation compel manufacturers and merchants to use more credit than usual, and the largest crop in the history of the country, valued at nearly double normal prices, is moving to market. In the face of this situation the Treasury has put out $550,000,000 of short time certificates, is now offering $400,000,000 more, and today invites subscriptions to a $3,000,000,000 loan.

Nevertheless the first month of the fall season has been passed very comfortably. Money is close in New York, with none to spare outside of necessary wants, but all trade requirements are met, and enough has been supplied upon collateral loans to avert any forced liquidation in the stock market. Cheap money is not to be had, and there is no prospect of having it, but cheap money would be out of keeping with the present situation. No stimulus to expansion is required at this time. As yet the New York banks have resorted but little to the Federal reserve bank—preferring to keep expansion within the limits of their own resources, although holding themselves in readiness to use the reserve resources if there was public reason for doing so. With the loans of the New York clearing house banks aggregating over $3,800,000,000 the total rediscounts of this district, which includes all of New York State and parts of Connecticut and New Jersey aggregate only $75,618,202 and the open market purchases of the reserve bank are $72,534,613.

The wheat crop of the northwest has been moving slowly, some say because of dissatisfaction among the farmers with the government price, but we are disposed to think it due rather to the fact that the farmers, feeling assured of the same price later, have preferred to use the good fall weather for doing the pressing farm work. Labor is scarce everywhere, and reports indicate that the farmers are preparing for next year's crop by doing a large amount of fall plowing. The slow movement of grain has made the demand for money for that purpose lighter than was anticipated. In the southwest cotton has been moving freely and the banking conditions are already becoming easy. The reserve banks are supplying more of the crop-moving demand than heretofore, and their ability to furnish currency in the form of Federal reserve notes is a helpful factor.

The surplus reserves of the Clearing House banks of New York on September 29th were $77,012,120. Collateral loans and call money are on a 6 per cent. basis. Commercial paper, 5½ per cent.

Federal Reserve System.

The total of rediscounts and acceptances held by the twelve reserve banks is $410,091,000, the total of reserve deposits is $1,137,491,000, and of cash reserves, $1,447,821,000.

With the great task ahead of supplying credit to the government for handling the war expenditures there is imperative need to consolidate the banking resources of the country. Nobody can question that the situation would be stronger if all of the banking institutions operating under state charters, which are eligible, would join the federal system. All concessions that could reasonably be asked have now been granted, and it is believed that a very large movement is about to occur. It is not too much to say now that there is a duty call upon every state banker to join the national organization. In union there is strength, and a look at the estimates of the Treasury should convince every banker that we have need to utilize all of our strength. It would be as sensible to send our regiments to France to fight each for itself, without an army organization, as to have our thousands of banks stand alone, each with its own little pot of cash reserves, in a time of great financial transactions such as we are entering upon. Payments into and out of the Treasury will be on an enormous scale, and every community in the country will be more or less affected by their ebb and flow. If the Treasury turns its income into the Federal reserve banks, and makes its payments through them, and all the banks of the country keep their reserves in these banks, these great transactions will be handled almost wholly by bookkeeping entries. The reserve banks will be able to maintain the equilibrium, protecting every individual bank and every locality from stringency. The situation will need supervision in this manner. There is every reason for confidence if the banks are organized and acting as a system, but this is a time when every banker should be a good soldier and take his place where he will count for most in supporting the general situation. This is one way to show how a free people can organize themselves for efficiency.

The Guaranty Trust Company, of New York City, the largest banking institution of the country outside of the National banking system, and in the very front rank of American banks, has announced its intention of joining

the reserve system. Other prominent New York state banks have joined and the leading state banks of Chicago have done so. Every good example will bring others.

Send in the Gold Certificates.

Again we would call attention to the advisability of substituting Federal reserve notes for gold certificates in circulation. Hundreds of millions of gold certificates are passing from hand to hand daily in ordinary business transactions, when reserve notes or national bank bank notes would answer as well. Paying and receiving tellers should be instructed to sort out gold certificates for remittance to the reserve banks for use as reserve money. They will broaden the base under our entire credit structure. Pay out Federal reserve notes for circulation.

Gold Embargo.

We described last month the situation in the foreign exchanges which has been causing the dollar to be quoted at a discount in countries which on direct trade with this country were largely in our debt, and which has been responsible for much of our gold exports. Since then the President has taken action under authority given by the Act of Embargo, and has placed all exportations of coin and bullion under the control of the Secretary of the Treasury, who has placed the exercise of authority in the hands of the Federal reserve board. Coin and bullion may be exported only by submitting a request, and having approval in each case. The occasion for it must be stated, and the Board will judge whether or not the transaction is of such public interest as to justify the loss ot gold from the country's reserves. The wants of individuals must be subordinated to the general good. Permission to make payment for staple articles of common use is readily granted.

It is well known that the government of Great Britain has sought to discourage the importation of unnecessary commodities, because adverse balances were created which lowered the purchasing power of the pound sterling. It has placed obstacles upon the exportation of gold from London under such circumstances, while freely shipping gold to the United States. But as the pound sterling was artificially supported here, it became possible to sell sterling drafts here at slight discount, and take the proceeds away in gold. The effect was to nullify the efforts of the British government to control merchandise importations into that country, and also to nullify its efforts to sustain sterling in this market. The exportations of gold under such circumstances are not desired by Great Britain and certainly do not serve the interests of this country. In the three months of May, June and July the exports of gold from this country aggregated $193,900,000. The policy of "earmarking" gold, or segregating it for safe-keeping, has been disapproved, as having practically the effect of exportation.

The Bond Act.

The big bond act became a law in record time, and practically as proposed and outlined a month ago. It authorizes $7,538,945,460 of bonds, in addition to the $2,000,000,000 Liberty loan already sold, to bear interest at not more than 4 per cent. This includes the unissued bonds authorized by the act of April 24, 1917, which were limited to 3½ per cent.

The act also enlarges the authority of the Secretary of the Treasury to borrow by the issue of Treasury certificates running not more than one year, and in such form and at such rates of interest as he may determine. These certificates are designed to facilitate the operations of the Treasury and by their use its borrowings are spread over the periods between bond offerings. The act increases the aggregate amount of these certificates which may be outstanding at once to $4,000,000,000. These certificates correspond to the Treasury bills of which the British Treasury now has about $4,000,000,000 outstanding. The governments of all the warring countries are using similar paper freely.

One of the most interesting features of the bond bill is the provision for War Savings Certificates. These are intended to meet the need for a government obligation in small denominations, obviating the great amount of labor involved in partial payments upon bonds and in remitting semi-annual interest upon such bonds. The idea is to discount the interest for the full term, in the face of the obligation. The rate of interest and all terms are left to determination by the Secretary of the Treasury, except that they may not run over five years, the total amount outstanding must not exceed $2,000,000,000, the amount sold to one person at one time must not exceed $100, and it shall not be lawful for one person to hold at any one time more than $1,000 of them.

The Secretary of the Treasury has appointed a committee to assist him in developing this war savings certificates idea, consisting of Mr. F. A. Vanderlip, of New York; Mrs. George Bass, Chicago; Mr. Henry Ford, Detroit; Mr. F. A. Delano, Washington; Mr. Eugene Meyer, Jr., New York; Mr. Charles L. Bayne, Boston.

These certificates will not be ready until December.

Price-Fixing and Taxation.

The price-fixing negotiations which have been an element of disturbance in the markets have progressed far enough to remove some of the uncertainty. The copper price, 23½ cents per pound, is accepted as fair. The fixing of

steel prices is much more complicated, because of the materials which are involved and the relations which must be maintained between products of various stages of manufacture. The prices fixed upon finished products, as ship-plates at $65 per ton, are considerably below recent quotations, but quoted prices for some time have been much above the level at which the bulk of production was being sold. As in the case of copper, steel prices were reached by conference and agreement.

The price-fixing authorities have been most perplexed over the task, which at first they seemed to think it necessary to assume, of adjusting prices to suit different costs, and particularly as between the producers who control all stages of manufacture and those who cover only one or more stages of the process. It is a favorite theory in some quarters that if different companies mine ore, do the transportation, make coke, produce pig iron, billets, etc., and conduct the several processes up to the finished goods independently, they are each entitled to a manufacturer's compensation, but that if one organization conducts all of the operations, coordinating and harmonizing them, it is entitled to only one manufacturer's profit. In the past the gains resulting from improved methods in the industries have been deemed as fairly belonging to those who devise and introduce the new methods, so long as they can hold them, as a proper reward and encouragement for initiative. Industry changes constantly, and all such economies reach the entire community in due time. There is gain to the community wherever economies are effected, no matter who the immediate beneficiaries may be, and the public has much more to gain by encouraging improved methods than by attempting to arbitrarily seize upon the savings which result from them.

The graduated scale of taxation is a more practical method of reaching large profits than graduated price-fixing, and the new revenue bill has employed it very effectively. The measure was first framed with the intention of taxing only the excess of war-time profits over pre-war profits, but in its final form it applies to the excess of all profits above 7 to 9 per cent. on invested capital. Some latitude is allowed to cover cases where profits during the years adopted as the base were below normal. In conference the measure has been liberalized in some degree in the determination of what may be included as capital.

There is much to be said on general principles against the whole scheme of graduated taxation, particularly as applied to earnings in business, but it is true that when the nation needs money in time of war ordinary rules cannot govern. In normal times the true policy for the state is to look to the future, and adhere to principles which will promote thrift, industry and progress. Profits which become capital and are used for increasing production are the most powerful agency for social advancement. But in a crisis like the present the energies of a people must be concentrated upon the great task in hand. Industrial development is necessarily curtailed except as it is directly helpful in the war. Capital cannot be invested as usual, because labor and materials are not to be had. Under the circumstances taxation must be heavy and the people are reconciled to it. The fear about it has been that Congress might be misled by exaggerated representations about profits. A large part of the nominal profits of the present time will never be realized as real profits. They exist in inventories of higher priced materials, and in brick and mortar and high-priced machinery, and will largely disappear when inventories have to be readjusted after the war.

The Coming Loan.

The second of the great war loans is offered October 1st and subscriptions will close on October 27th. The amount of the loan is $3,000,000,000, but one-half of any excess subscriptions will be accepted. The down payment will be 2 per cent., the second payment will be 18 per cent. on November 15th, 3rd payment, 40 per cent. on December 15th, and 4th payment 40 per cent. on January 15th. The interest rate is 4 per cent., payable semi-annually, interest accruing after November 15th, and interest payments falling on May 15th and November 15th. The bonds will be due in twenty-five years, with an option to the Government of payment after ten years. The bonds will be convertible into any issue bearing a higher rate offered during the war, application is made within six months from date of announcement of the issue into which conversion is desired.

These bonds will be exempt from state and local taxation, except state inheritance taxes, but will not have the complete exemption from federal taxation which has been heretofore granted to government obligations. The terms of exemption are set out in the following provision of the bond act:

> These bonds and certificates will be exempt, both as to principal and interest, from all taxation now or hereafter imposed by the United States, any state or any of the possessions of the United States, or by any local taxing authority, except (a) estate or inheritance taxes, and (b) graduated additional income taxes, commonly known as surtaxes and excess profits and war profits taxes, now or hereafter imposed by the United States upon the income or profits of individuals, partnerships, associations, or corporations; and the interest on an amount of bonds and certificates authorized in the bond act, the principal of which does not exceed in the aggregate $5,000, owned by any individual, partnership, association, or corporation, will be exempt from the taxes provided for in clause (b) above.

It will be seen that by the exemption of the income from bond-holdings up to $5,000 an in-

ducement has been offered for a wide distribution. Above holdings of $5,000, interest upon the bonds is exempt from the normal income tax, but is subject like other incomes to the super-income or excess-profits taxes.

Under the war super-taxes the new issue will yield a lower net return to possessors of large incomes than the 3½ per cent. issue, but the 4 per cent. rate makes it more attractive to small holders. A United States government bond at 4 per cent. is a very fine investment, and while the higher super-taxes will make serious inroads on the income so long as they are maintained, they apply to all incomes in the same manner, and when taxation is reduced, as we may venture to hope it will be sometime, the bonds should command a premium.

The amount offered, $3,000,000,000, is a very large sum, but it will be remembered that it was somewhat exceeded by the subscriptions offered to the first loan, when only $2,000,000,000 was asked. The time is more favorable now. The season's crops are practically assured, a year of unusual prosperity in nearly all sections of the country will be soon completed. The gravity of war has been brought home to all communities by the departure of hundreds of thousands of young men for the training camps, and there is every reason to believe that the country will respond heartily with the means to support the armies in the field.

The raising of a great loan, however, cannot be allowed to depend upon spontaneous action. It can only be done by a thorough organization, reaching into every locality, dividing the task, and bringing home to all citizens a knowledge of what others are doing and of the responsibility that belongs to every one who enjoys the privileges and blessings of life in this favored land. The experience of the first campaign will be of great value. As in that campaign the task of leadership will fall largely upon the bankers and we expect them to give an even better account of themselves than before.

The Treasury will give every possible consideration to the subject of handling the funds so as to cause the least disturbance to banking conditions in all localities. Payments will come at a time when bank deposits are generally high, and now that reserves are mainly concentrated in the reserve banks, and with the experience gained from dealing with the previous loan, it is believed that the shift of credits can be accomplished without interfering with usual accommodations anywhere.

Secretary McAdoo has announced that the 3½ per cent. Liberty bonds may be converted into the 4 per cents at any time within six months from November 15, 1917. If not so converted they may be converted into any subsequent issue drawing more than 4 per cent.

Savings Deposits.

The effect of the Liberty Loan upon savings deposits was watched with a good deal of interest, and reports have been quite reassuring. Withdrawals from the big mutual savings banks of New York City and state were insignificant and no serious apprehensions are felt of the effects of a higher interest rate. The officials at Washington of the Postal Savings system have said that where the effect was traceable at all it was in slight diminution of the rate of increase. Generally, the country bankers state that while there were withdrawals for the purpose of paying for the Liberty bonds, they were not large, and the amounts were soon recovered.

These reports are in agreement with the experience of savings banks in other countries involved in the war. In Russia savings deposits increased largely in the first two years of the war, a fact attributed in part to the prohibition of vodka. In Germany savings deposits have increased. In Great Britain they have remained about at a standstill. The country in which conditions are most analogous to those of the United States is Canada, and here the showing is the more remarkable, because the common rate of interest on savings deposits is 3 per cent., while the war bonds return better than 5 per cent. The chartered commercial banks have most of the savings deposits in departments created for the purpose. These deposits on the dates named have been as follows:

December 31, 1913	$624,692,000
December 31, 1914	662,830,000
December 31, 1915	720,990,000
December 31, 1916	845,000,000
March 31, 1917	888,765,000

There are only two incorporated savings banks in Canada, and these are important institutions located in Montreal and Quebec. The returns for these and for the postal savings system together show $97,275,000 in 1913, $94,600,000 in 1914, $92,200,000 in 1915, $93,930,000 in 1916 and are estimated as practically unchanged in 1917.

The explanation of this indifference of the average savings depositor to the higher rate is believed to be due to the fact that he regards the deposit as ready money, available whenever he may need it, while he looks upon a bond as a permanent investment. The question of safe-keeping is also an important one with bond-buyers of this class.

For the year ended June 30, 1917, the savings banks of New York State received deposits aggregating $503,048,944.15, not including dividends credited, which amounted to $71,022,361.29. Withdrawals aggregated $465,850,758. Thirty-four paid dividends at the rate of 3½ per cent. two at the rate of 3¾ per cent. and 105 at the rate of 4 per cent.

War Expenditures.

It is natural that the estimates of the Secretary of the Treasury of the enormous sums required to pay the expenses of the government and to finance the purchases of our allies during the current fiscal year should seriously impress the country, and cause some apprehensions as to the effects of withdrawing so much capital from the public and disbursing it largely for unproductive purposes.

It is well that the country should ponder seriously over the figures, and understand the full measure of the task which is set before it, for it is absolutely necessary that the energies of the nation shall be concentrated upon the undertaking.

But while this stupendous effort is necessary to carry out the government's plans, it is not desirable that mistaken or exaggerated fears shall be current as to the effect of these efforts upon the prosperity of the country, either during the war or after the war. Nothing can be more certain than that the general volume of business will be maintained during the war. These loans and taxes are to provide means for the purchase of our own products. The loans to foreign governments are for the purpose of enabling them to buy in this market, and the funds are being disbursed for wheat at $2.20 per bushel, cotton at 20 cents per pound, and other things in proportion. Industry is bound to be kept under high pressure, and although distribution in some lines and through some channels is affected unfavorably, that is incidental to the shift into new channels and is a minor factor in the situation.

These expenditures are not to be counted as all war waste or loss. The loans to allies, although adding to the load of the moment, will represent capital to us, and probably establish this country permanently in a creditor position. The expenditures upon a merchant fleet are clearly on capital account. Furthermore, if expenditures upon a military establishment are ever to be counted as capital, much of the first year's outlay may be so classed, being expended for land, buildings, and permanent fortifications and equipment.

Finally, a great part of the expenditure in the course of its distribution is caught up and saved in one form or another. Old indebtedness is being paid, and the industries of the country will be much advanced, both in capacity and methods over what they were before the war.

Finding $14,000,000,000

The Secretary of the Treasury has estimated that he must have $14,000,000,000 between now and June 30, 1918.

In considering how much money a country can raise in a given time for war purposes, it is to be remembered that the task of carrying on a war is primarily an industrial one. A portion of the population joins the fighting forces, another portion supplies strictly war materials, and the remainder supplies food, clothing and other necessaries for all. If so many men join the army or are employed upon munitions that there are not enough left to supply the necessaries, and these cannot be bought outside, it is only a question of time until the organization will break down; but so long as the country is industriously self-supporting it can go on, and the financing can somehow be done. If a people are simply exchanging work among themselves it is certain that they can settle accounts among themselves, and the task of financing is that of arranging the offsets and settlements. In other words, if this country can make and spare $14,000,000,000 worth of products for war purposes in a year, it can pay itself for them. If used for war purposes they are, in a sense, surplus products, a balance over and above what the country has otherwise consumed, and the country can take government credit for them. The problem of government payments is primarily a "clearing" problem. The Treasury must become a clearing house, through which all the available credits of the country are mobilized and offset against the government's expenditures.

The amount of the government's borrowings depends largely on the level of prices. If prices were normal it perhaps would not have to raise over $7,000,000,000 instead of $14,000,000,000; but the level of prices also increases the money income of the people and enables them to supply more credit to the government. Normal trade tends to be in balance and to settle itself, but when the government takes so large a share of production, trade is evidently unbalanced, there must be corresponding credits without offsets, and those credits, practically equal in the aggregate to the government's purchases, are available for Treasury use.

The problem of government finance is to gather up these multitudinous credits from all classes and all parts of the country. Every business man, farmer, or wage-earner whose income has increased more than his outgo has a share of this surplus credit created by war conditions. If he turns it over to the government, either in taxes or for bonds, he helps to balance the situation and support the government, but if he tries to spend it he adds to the government's difficulties by being a competitor when there are not enough supplies to go around. The continual rise of wages and prices shows that the people are bidding against each other and against the government for labor and goods, and that private expenditures are not being curtailed to correspond with the increase in government expenditures. The only really effective curb upon expenditures is the rise of prices.

The volume of foreign loans shows that a surprisingly large amount of private credit has been placed at the disposal of the governments, but this is due in part to the fact that other channels of investment are practically closed. Furthermore, the fact that the banking systems, which are the

common depository of credit and have facilities for creating credit, are at the service of the government, has been a large factor in the success which has been achieved.

Three Years of War Financing.

The best guide the people of this country can have as to the effects of the war upon business, and the practicability of repeatedly raising large sums for war loans, is to be found in the experience of the European countries. Few people believed at the outbreak of the conflict that it could possibly last for so long a period as three years. It was the common view that, if for no other reason, peace would have to come before that length of time from inability of the governments to continue the expenditures. That this was wide of the truth is now evident, and even after three years those most competent to judge feel but little better able to set a date when the end must come through financial exhaustion than they were at the beginning.

In the three years Great Britain's war expenditures, including interest on the war debt and ordinary appropriations for the army and navy, amounted to approximately $23,000,000,000, of which roughly $4,000,000,000 was provided by revenue and the remainder by loans. About $5,000,000,000 of this has been advanced to allies.

The amount of revenue raised by the other countries for war purposes is not at hand, but it is known that Great Britain has done more in this respect than they have attempted. The amount of indebtedness created by the several countries is difficult to trace because of the variety of forms in which it exists. Germany is now raising its seventh public loan, the six preceding having aggregated about $14,000,000.000. The loans of the other countries are smaller, and altogether probably do not exceed the total of Great Britain and Germany, but are quite as great in proportion to their wealth.

Conditions of European Banks.

The condition of the central banks of Great Britain, France, Russia and Germany on the dates nearest to August 1, 1914, 1916 and 1917 for which public statements have been available, were approximately as shown below:

BANK OF ENGLAND.

	1914	1916	1917
Gold coin and bullion	$190,000,000	$270,000,000	$250,000,000
Gold for Exc. notes..	....	142,000,000	142,000,000
Loans and inv.	290,000,000	585,000,000	800,000,000
Deposits	335,000,000	680,000,000	865,000,000
Bank note circulation.	145,000,000	183,000,000	200,000,000
Exchequer notes	....	635,000,000	805,000,000

BANK OF FRANCE.

	1914	1916	1917
Gold coin and bullion—			
In vault	$825,000,000	$958,000,000	$650,000,000
Held abroad	....		400,000,000
Disc'ts and advances.	640,000,000	618,000,000	590,000,000
Advance to state for the war	....	1,600,000,000	2,100,000,000
Treasury bonds representing advances to foreign gov'ts..	....	244,000,000	550,000,000
Deposits	260,000,000	430,000,000	535,000,000
Bank note circulation	1,335,000,000	3,200,000,000	4,000,000,000

IMPERIAL BANK OF GERMANY.

	1914	1916	1917
Gold coin and bullion	$338,000,000	$615,000,000	$600,000,000
Disc'ts and advances	200,000,000	1,635,000,000	2,780,000,000
Deposits	235,000,000	595,000,000	1,460,000,000
Bank note circulation	470,000,000	1,755,000,000	2,210,000,000
Treasury and loan bank notes	21,000,000	240,000,000	1,220,000,000

BANK OF RUSSIA.

	1914	1916	1917
Gold coin and bullion	$800,000,000	$770,000,000	$645,000,000
Loans	380,000,000	2,440,000,000	6,620,000,000
Deposits	530,000,000	980,000,000	1,650,000,000
Bank note circulation	815,000,000	3,405,000,000	6,820,000,000

These statements show a great expansion of bank credit everywhere. The situation is naturally worse in Russia, where the unsettled internal conditions have interfered with the collection of revenues and the placing of loans, throwing the government back upon the state bank for means of meeting current expenditures. The rapid increase of its paper issues has been reflected in the price of Russian exchange. In all of these countries the increased issues of paper have been in part required to take the place of gold withdrawn from circulation, and the high prices of war times have also been a factor, as we know even here in the United States. In Great Britain, as in this country, credit expansion naturally appears in bank deposits, and the great volume of exchequer notes is explained as entirely due to the replacement of gold and the increased amount of money needed in circulation. These notes were originally issued, like the Aldrich-Vreeland currency of this country, at the outbreak of the war, to the banks for counter money and to enable them to meet any unusual demands from depositors. They proved popular, and increasing amounts have been absorbed in circulation. They are redeemed in gold on presentation at the Bank of England.

The banks of England other than the Bank of England are not required to publish statements, but it is customary for them to do so at the close of each calendar year, and some of them publish a mid-year statement, as of June 30th. Thirteen of the principal institutions, whose business is probably typical, on June 30, 1917, showed a total of loans (bills and advances) at that date aggregating $2,334,936,375, against $1,915,393,260 on the same date of 1916; investments, $1,127,841,810, against $1,186,446,330 in 1916; deposits, $4,348,539,425 against $4,001,480,880 in 1916. It should be recalled in this connection that in March last the great Victory Loan, of over $5,000,000,000, was closed. The banks loaned freely to subscribers but did not subscribe themselves, it being an agreed policy to keep the banks as liquid as possible. The result is seen in the increase of their loans to the public and a reduction of their own investments. The increase of only $474,000,000 in loans under the circumstances is a good showing. The Bank of Liverpool reports that it made loans amounting to £9,000,000 for subscription purposes, and that one-third had since been repaid. There is nothing in the condition of these British banks to indicate that the war may not go on indefinitely.

We have no similar statements for the unofficial banks of either France or Germany. The advances of the Bank of France to the French government aggregate about $2,100,000,000, against $1,600,000,000 at the corresponding date in 1916; besides it is carrying loans to foreign governments, allies, aggregating $530,000,000, against about one-half as much last year. The note circulation, at $4,000,000,000, is very high, but it is to be considered that the note circulation was always high relatively, the notes of the Bank of France being the popular currency in France. The circulation is approximately three times what it was at the outbreak of the war, and the increase in paper currency has been proportionately greater in both England and Germany. We give the gold holdings as they appear in the bank's statements, but we understand that the holdings abroad are in the form of gold credits and not in metal.

We have no data as to the banking situation in Germany beyond the statement of the Imperial bank. It shows that the note issues of the bank have gone up from about $470,000,000 at the outbreak of the war to $1,300,000,000 in 1915, $1,700,000,000 in 1916 and $2,100,000,000 in 1917.

Although all of these figures are high it cannot be safely predicted that they may not go much higher before having any effect in themselves upon the termination of the war. Prices are high, and this is a symptom of currency depreciation, but there are other influences upon prices, notably scarcity, which is responsible for very high prices in the United States. When industry is resumed after the war we will be able to form some idea of the extent to which the expansion of the currency has been caused by high prices and to what extent the high prices are due to the currency. As prices fall so much of the currency as is actually redundant will probably find its way back to the banks.

Business Conditions.

The war has dominated the business situation in all countries, and such lines as house-building and some luxury trades have suffered serious interference, but there has been great expansion in other lines, and on the whole the wage-earning class is more completely employed and receiving more pay than in ordinary times. The large department stores which make public reports show a large volume of business and larger aggregate profits than ever before, and this is true of industrial companies generally. Fewer people are idle, and earning nothing, than ever before, and this is a condition favorable to trade. The London *Economist* in a recent number comments critically upon the public's failure to heed the appeals for economy, saying:

The national conscience on the subject of saving and spending has backslid badly in the last six months, and the "business as usual" spirit is among us again, with all its accompaniments of stupid and unpatriotic extravagance, which forgets war saving and leaves the war to be financed by inflation and the manufacture of bank credits.************

It is a pitiful enough little sacrifice to make, when we think of what our soldiers are doing, to go without some of the graces and pleasures of life so that their effort may be supported. How little we are doing in that direction may be seen on every side. The more comfortable classes have hardly been touched, in the matter of their comforts, by the war. With the future of the world at stake, and the greatest need that ever was for a united effort on the part of all who believe in liberty and progress and hate the possibility of a future devoted to the development of ingenuity in destruction, our fashion and frippery shops are busier than ever, and all the machinery of amusement and self-indulgence is in full swing.

While there is much free spending, offensive to those who realize the importance of having the nation conserve its resources, there must be curtailment of consumption in some lines to allow of the expansion of production which has occurred in some directions, with the withdrawal of 5,000,000 men for the army and navy.

In the security markets bonds and stocks that yield a fixed income have naturally suffered by the enormous offerings of government bonds, but the stocks of industrial companies and the big stores have been well sustained or advanced to higher quotations.

Debts After The War.

Everywhere there is anxiety as to the effect of the debts upon industry and living conditions after the war, but it is noteworthy that in all countries the people are busy with plans for reorganization and development. It is generally recognized that the main problem is that of getting the people back to work. If the industries can be put on their feet promptly the fiscal problems can be handled. The early forecasts of war finance went astray because they assumed that the war expenditures would be taken out of capital, but that has been true only in minor degree. The bulk of the war expenditures consist of labor and of supplies of current production. A year of war means that the work of the year has been to a great extent expended unproductively. It has been lost. But the stock of fixed accumulated capital, in the form of implements, tools, equipment, railways, factories, houses, etc., by means of which wealth is produced and trade is carried on, has not been destroyed, except in limited districts. It is for this reason—because the wealth-producing capacities of the countries remained—and because the energies of all peoples were enormously stimulated, that the prophecies of an early end of the war through exhaustion have failed.

For a like reason the prophecies of universal poverty, industrial prostration and general bankruptcy after the war are likely to be astray. The world never has very much consumable wealth on hand; its wealth is in the

equipment for production. It never does very much buying with money; the purchasing power of every country is in its own powers of production. It is trade based on current production that makes the world's business. As soon as the industries of every country can be put in order and started, as soon as everybody can be got to work and earning something, and trade can be reorganized, markets will be re-established and conditions will naturally become normal.

It is time to stop talking about the war debts as though all payments upon them were to be sunk in the sea. The expenditures which created the debts were unproductive and the wealth to liquidate the debts must be created in the future, but when it is created it will not be consumed or lost to society by being passed through the government treasuries and into the hands of the debt-holders. That is an error due to the persistence of the idea that wealth is of no value to anybody but those who hold title to it.

A British writer describes the changes in British industry under war conditions as follows:

> There are two truths so plain that we wonder it required a hundred years to find them out. It is the war that has finally revealed them to our blind eyes. The first truth is that high wages give high productiveness. A well-fed, self-respecting, healthy workman can do more work than an undernourished, servile workman. If the employer wants a good product and plenty of it, he must pay a living wage. The second truth is that workmen must work efficiently if they wish high wages. If they cut down productiveness there is no money to pay them. The war has smoked the workers out. Their secret processes which required hours to work have turned out as simple as building-blocks. It is public knowledge now, the time it takes to do a piece of factory work. For years the worker has been limiting his output. A manufacturer of marine engines states that where thirteen rivets were turned out before the war, seventy are now being made by the same number of workers. The worker is making the same fight here that he made when he broke the first machines. The machines were robbing him of his living, he thought. Instead of that, they have given more men a better living.*

The welfare of any people depends upon its capacity for production. It is natural to assume that the destruction of life and property which takes place in war will reduce that capacity, but this is upon the assumption that industry will be resumed after the war as it was before, which certainly will not be true in this case. The application of steam to industry enabled England to quickly recover from the wars with Napoleon and similar economic changes will have similar effects after this war.

The Period of Reorganization.

In all of the warring countries the period immediately following the war is looked forward to with more or less of apprehension. It is recognized that the months following demobilization, until the men who are leaving the armies are located in regular employment, and until the industries are reorganized and have found a regular outlet for their products, will be a critical time. The trade of the world is disorganized and will have to take shape again. May there not be a period of hesitation, confusion, unemployment, and depression?

The best assurance that this danger will be averted is in the fact that it is everywhere recognized, and that steps are being planned to deal with it. It is agreed in all countries that demobilization will be accomplished gradually, and that provisions will be made for placing the men in employment. In England numerous Parliamentary committees, assigned to the various branches of industry, have been created to deal with the subject, and now a Ministry of Reconstruction has been added to the Cabinet, in which all of these efforts will center. The government will have direct contact with every part of the industrial situation, and after all it has done for the regulation and support of business during the war, it is not likely to withhold its hand where it can steady or aid the process of reorganization. The general feeling in England is that there will be a demand for labor in the industries which will absorb the supply as fast as it is available. Ship-building will be very active and there is a great amount of construction work which has been held in abeyance. The government is considering an extensive house-building program, to provide sanitary tenements for the working classes.

In Germany, where industry has always been highly organized, and always had the sympathetic assistance of the government, plans for the post-war period are being carefully made. The ministry has prepared a measure for the loan of large sums to the steamship companies to enable them to promptly resume their services. Arrangements are under discussion for government aid in the importation of raw materials for the industries, and for consolidation and more economical organization in various branches of industry. In France the government will lend its credit for the rehabilitation of the devastated provinces, and probably for the assistance of the industries. An extensive scheme of reconstruction will be required in Belgium and in Poland.

It is of course apparent that there is no lack of work to be done in all of these countries and in other parts of the world. Normal progress has been everywhere interrupted, and will be resumed with a rush, as soon as general confidence in the situation is established, and there is assurance that capital and credit will be available.

Here, it will be said, is the rub! Where can capital and credit be obtained? Will not these resources be exhausted? The answer is that credit for peace purposes will certainly outlast credit for war purposes. Whatever the war debts may be it is apparent that their payment is de-

* Arthur Gleason, "Inside the British Isles."

pendent upon the rehabilitation of industry. There can be but one opinion among statesmen, financiers and all classes as to the immediate necessity for the resumption of industry. The shops, mills, mines, laboratories and fields will be waiting, and the goods when produced will pay for themselves in the exchanges. The resumption of industry and trade has little need of government credit in the sense of requiring resort to the taxing power, but it will need coördinating, stabilizing support through the period of reorganization, and it is quite certain that this will be provided in Europe.

The Post-War Period in the U. S.

It is not too early to begin to plan for the period of readjustment in the United States after the war. Here, as in other parts of the world, there is no lack of work that ought to be done, and which, if done, will provide full employment, but there is danger of hesitation and loss of confidence in passing from war conditions to peace conditions. There is wanted for that time a big, definite program of construction work which will put a backbone into the situation, and the opportunity for such a program is afforded by the railway situation. It has been demonstrated that notwithstanding the great amount of capital expended upon the railways in the last 17 years, their development has not kept pace with the growth of traffic. Daring as the plans of some of the leaders in the railway world appeared to be 17 years ago, the country has outgrown the facilities of even the most enterprising companies. Furthermore, it is apparent that the railway problem cannot be adequately dealt with by the companies acting independently and alone. The situation requires comprehensive treatment, particularly at terminals, looking far to the future, and requiring an amount of capital which the companies alone cannot undertake to raise in the state of the world's money markets in the near future, nor can expenditures planned upon a scale to adequately care for the future be expected to be immediately remunerative to the railroads, although the improved service would be advantageous to the country.

The advance in mechanical engineering, particularly in the application of electric power to railway service, affords opportunity for the profitable expenditure of large sums. The country is right on the verge of large possibilities in the way of economical power production, not only for the railways but to serve the industries in conjunction. An extensive scheme to develop and improve the country's transportation system would do more to equip the country for economical production, and to enable it to hold its own in world's markets than perhaps any other single thing that can be done, and if such a program could be ready for announcement at the close of the war, it would put an end to all uncertainty and apprehension about business conditions in the United States in the period following the war. It could be so adjusted and carried out as to take up all the industrial slack for years to come.

The government's relation to the railroads up to this time has been wholly restrictive, but the time has come when it ought to be also constructive. Regulation is inevitably restrictive in some respects, and this phase of it tends to divert capital to other employment. To offset this effect the government's relation to the railway business should be likewise constructive, giving some positive aid to the support and development of the great transportation industry, which it recognizes as holding a vital relationship to all the other industries.

Such a program can only be promptly and adequately carried out, under the conditions which will exist at the close of the war, by the aid of government credit, and it should be done under a just and reasonable arrangement between the companies and the government, which will ultimately reimburse the government, and at the same time provide an incentive for the initiative and enterprise of private management, and secure to the public the benefits of adequate and progressive service.

The Bond Market.

The record of bond transactions on the New York Stock Exchange during the month of September has been as variable as the thermometer records of the September temperature. Railroads and industrials were weak during the first week of the month with the trading confined mostly to foreign governments. During the second week the inactivity continued and prices declined slightly.

United States government issues changed hands in substantial amounts. Two per cents have sold at 98, and 4s of 1925 at 106¼. Registered Panama 3s have been offered at 85 and coupon 3s at 86, at which prices they would yield about 3.70 and 3.75 per cent. These bonds are without the circulation privilege, and therefore compare with the Liberty Loan 3½s. In the statement which appeared in our September Bulletin of refunding operations provided for in the new bond bill, the outstanding remainder of the Spanish-American war issue of 3 per cents was confused with the Panamas. The former, of whom $63,945,460 are outstanding, are due in 1918, and are provided for in the $7,538.945,460 bond issue authorized by the act of September 24th last.

The Liberty Loan has been in demand, particularly since it has developed that future government issues would be subject to the supertaxes, the price on September 27th reaching 100.14.

The third week witnessed some activity in rails and industrials, but even this activity was unable to overcome the tendency to weakness in prices.

Judging from reports, "over the counter" business during September was confined for the most part to the large houses which have established organizations in the various markets of the country. Local dealers in the various centres report spotty business but the larger houses with their widespread organizations have been able to take advantage of the ebb and flow and the month of September has shown a steady volume of business.

There has been little new financing during the month, the most noteworthy being:

$6,300,000 Metropolitan Water Board of London One Year Discount Bills on a 7% basis.

$4,000,000 Seaboard Air Line Railway Two Year 6% Secured Notes on a 7% basis.

$15,000,000 New York Central Two Year 5% Secured Notes on a 6½% basis.

$6,000,000 Gillette Safety Razor Five Year 6% Convertible Notes on a 7.20% basis.

It is reported that the private offering of the New York Central Notes has proved so successful that a public offering would not be made at this time. The Metropolitan Water Board issue and the Seaboard Air Line issue have met with a ready sale.

The municipal market has been extremely active during the entire month with a good demand from institutions and private investors. An active demand for the following issues is reported on the bases noted:

State of California 4½s	4.35%	basis
Pierce County, Washington, 5s	4.80%	"
City of Portland, Oregon, 4½s	4.70%	"
New York City 4½s	4.42%	"
State of Tennessee 4s	4½%	"

The City of Philadelphia was successful in selling $7,500,000 4% bonds over the counter at par. New York City sold an issue of $15,000,000 Treasury Bills due December 5th at prices ranging from a 3.75% to a 3.85% basis.

The good reports of railway earnings have overcome some of the pessimism which has been prevalent among the rails for some time past. In many cases prime railroad bonds of unquestioned security have been selling at the low figures of the year, but of late there has been an improving inquiry for conservative rails. The continued improvement in the bond market during the month augurs well for the second Liberty Loan and the representative bond organizations of the country are entering the campaign with a determination to "put it over."

American International Corporation.

The American International Corporation, which is an outgrowth of this Bank's efforts to promote American trade, has organized a subsidiary company, known as the American International Steel Corporation, to act as agent for the sale of American steel products in foreign markets. It will have offices and salesmen in Europe, Asia, South America and Africa, and be prepared to represent American manufacturers in all lines of steel and iron goods. At present not much can be done owing to the impossibility of getting deliveries, but when the war is over it will be very desirable to have an aggressive campaign carried on to place American products. The organization of this company is simply an extension of the policy heretofore adopted, of having subsidiary companies to handle different branches of trade.

The American International Corporation has entered into a contract with the United States Government to construct an extensive shipyard on Hog Island, in the Delaware river, below Philadelphia, and to build 50 steel merchant ships of 7,500 tons each, with the option to the government to raise the order to 200 ships. To handle this contract a subsidiary company, to be called the American International Ship-building Corporation, is being organized, in order to keep this work entirely separate from the business of the New York Ship-building, another subsidiary with yards at Camden. The government contract includes a profit-sharing provision which is unique. A small fixed percentage of profit is guaranteed to the contractor, and all profits above this, based upon an estimated cost, are to be divided, one-third to the government, one-third to the working force and one-third to the contractor.

The Silver Situation.

Silver prices have been erratic in the extreme during the past month. At the close of August the London quotation was 46 pence for silver 925 fine, which would make the equivalent price in New York for silver 1,000 fine approximately $1.00 per ounce. In September the price advanced steadily, the London quotation up to 55 pence, and it is said that as much as $1.17 was bid in New York.

In the last days of the month the price slumped heavily to 49 pence in London, and sold in New York around $1.00. In ordinary times the silver market in New York is below the London market by about the cost of transportation and insurance, but during the war most of the exports are going from San Francisco direct to Asia.

The immediate cause of the decline was the falling off of the demand for India and China, which was probably checked by the rapid rise that had occurred. The position of silver, however, remains very strong, owing to the low production of Mexico and the great demand for coinage purposes in numerous countries. The balance of trade in favor of India is large, and if China enters the war the fact may have bearing upon the monetary situation there. London is bare of silver, and British coinage exceeds the capacity of the Royal mint, a private mint at Birmingham being pressed into service. Importations of

both gold and silver into India are now under government control, in order to direct them into the Treasury and to secure the use of paper in circulation so far as practicable.

The Indian Rupee.

The government of India has a perplexing problem in the silver rupee. This is the common coin of India and there is a large stock of them in the hands of the people. The rupee weighs 180 grains, and is eleven-twelfths fine, making the fine silver contents 165 grains. The United States silver dollar is precisely equivalent in silver contents to 2¼ rupees, or to put it in another way, the value of the rupee at $1.29 per ounce would be approximately 44.4 cents. In 1893, owing to the decline in the value of silver bullion and of the rupee under free coinage, the mints of India were closed to free coinage, preparatory to establishing the gold standard. At that time the value of silver bullion was fluctuating around 75 cents per ounce, which makes the bullion value of the rupee about 29 cents in United States money. After the closing of the mints, the price of silver fell still further, but gradually as the stock of rupees was absorbed the exchange value of the coin was stabilized at about 16 pence, and in 1899 the government made the British sovereign the standard coin of India, and fixed the value of the rupee definitely at 15 to the sovereign, which gave it a value in United States money of 32.4 cents.

Since 1893 the rupee has been a token coin, with the value of its silver contents worth less than its legal tender value, but within the last few months its bullion value has become worth more than one-fifteenth of a sovereign. It is out of line with the standard coin, and the government has changed its legal status to 14½ to the sovereign. This is an anomaly in itself, for it is not customary to adjust the value of a standard coin to suit that of a subordinate piece. The fact is that the rupee has suddenly reinstated itself as the standard coin of India. The rupee is the best-known coin, it is the money of account in general circulation and hoarded by hundreds of millions; it is impracticable to call in the rupees for recoinage, giving a smaller coin in exchange. The government has control over the coinage of rupees and over the importation and exportation of silver to and from India, and possibly can control the situation temporarily, but the fact that it has already changed the relationship of the rupee to the sovereign shows that the latter rather than the former is now on the sliding scale.

The United States Silver Dollars.

We suggested last month that the rise of silver might afford an opportunity to make an available assets of the stock of silver dollars held in the United States Treasury against silver certificates outstanding. The average cost to the government of all the bullion purchased for dollar coinage from 1873 to 1893, was 1.02½ cents per ounce. These purchases, however, were coined at the rate of $1.29 per ounce, and the difference covered into the Treasury as ordinary revenue. Of course, the coins could not be disposed of at less than $1.29 per ounce without creating a deficit in the Treasury which would have to be cared for by Congress.

The rapidity of the rise last month suggested that it is quite within the range of possibility for silver to go to $1.29 and above. If this should occur, silver certificates could be presented at the Treasury for redemption, and the coins could be exported as bullion unless the authorities interposed objections under the embargo act. Presumably no objections would be raised to exportations in settlement of approved trade, for the silver would go in exchange or substitution for gold, and gold would be more serviceable in the reserves of the Federal reserve banks than the silver certificates.

In only one respect might inconvenience be felt. The silver certificates are mainly in the one and two dollar denominations, and the supply of these is already deficient. If they were rapidly retired without anything being provided to take their place trade would be embarrassed for want of small bills. When the Federal reserve notes were authorized no provision was made for one and two dollar denominations, because it was thought best to allow that field to the silver certificates and United States notes. In view of the present silver situation it would be wise to have Congress at once authorize reserve notes in these denominations. With this done the country would be a gainer by the exportation of silver dollars. The Federal reserve notes in small denominations would impose practically no additional burdens on the gold reserve. In the last analysis the silver certificates are now a liability against the gold reserve, but used as they are in retail trade only, it is a negligible liability. The substitution of reserve notes for the certificates would unify our currency system, and if the dollars were available for export at their face value they would stabilize silver and exchange with Asia for a long time.

The total amount of silver dollars in the country is estimated at 568,000,000.

Port of Astoria.

We have made mention, from time to time, of extensive improvements being made at leading market and shipping centers of the country, in warehouses, dock, storage and transfer facilities of every kind. The information has shown that an extensive movement of this kind is under way, enterprising cities vieing with each other in their efforts to become trading

centers. In the Pacific Northwest we have mentioned the improvements at Seattle and Portland, but have not until recently had the details of the important works at Astoria, the oldest port in the Pacific Northwest. Astoria was founded in 1811 by John Jacob Astor. From the beginnings of settlement in the northwest the Columbia river has been recognized as affording a valuable entrance for shipping, but until recent years the bar at the entrance has been a menace to navigation. Appropriations by Congress, supplemented by the municipalities of Astoria and Portland, have finally secured 40 feet of water over the bar and 30 feet all the way to Portland, at mean low tide.

Astoria is situated only a few miles from the ocean. Under the laws of Oregon, a port commission was created in 1909, which has had charge of the construction of extensive improvements, such as wharves, slips, warehouses, cranes, grain elevator, etc. Modern coal-handling apparatus has been installed. The storage capacity for grain is about 1,200,000 bushels with a loading capacity of 15,000 bushels per hour. In the past on the Pacific coast grain has been shipped mainly in sacks, but it is said that this is rapidly changing, owing to the construction of elevators throughout the interior. More than 50 new elevators, it is said, will be in operation this season.

Astoria has a flouring mill with a capacity of 1,200 barrels per day, three ship-building plants, four saw-mills, a paper mill, nine canneries and other industries. The port improvements which it is completing will give it new standing among the important cities of the northwest coast.

STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS SEPTEMBER 21, 1917.

(In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco	Total
Gold coin and certificates in vault	21,045	[illegible]	17,784	[illegible]	6,249	6,246	44,580	3,194	[illegible]	8,051	12,412	14,322	430,979
Gold Settlement Fund	15,180	[illegible]	30,276	38,454	22,178	1,038	51,602	19,850	7,461	32,976	6,410	19,812	373,387
Gold with foreign agencies	3,675	18,112	3,675	4,725	1,837	1,575	7,350	2,100	2,100	2,625	1,838	[illegible]	52,500
Total gold held by banks	42,900	395,904	51,735	70,737	30,264	[illegible]	103,532	25,144	26,457	43,652	20,660	37,022	856,866
Gold with Federal Reserve Agents	24,221	216,932	32,001	35,324	14,516	28,332	81,533	17,286	21,117	20,796	20,360	23,591	[illegible]
Gold Redemption Fund	500	4,001	950	53	808	339	270	575	803	518	610	15	9,442
Total gold reserves	67,621	616,837	[illegible]	106,114	45,588	37,530	185,335	43,005	48,377	[illegible]	41,630	60,628	1,402,317
Legal tender notes, Silver, etc.	3,813	[illegible]	1,202	313	150	457	2,150	1,213	338	37	530	93	49,934
Total Reserves	71,434	[illegible]	[illegible]	106,427	45,738	37,987	187,485	44,218	48,715	65,003	42,160	60,721	1,452,251
Bills discounted, Members	[illegible]	27,146	13,618	10,434	16,647	7,548	[illegible]	15,221	10,919	16,894	8,133	9,614	183,758
Bills bought in open mark't	18,803	59,509	16,434	[illegible]	3,297	1,731	12,485	4,715	3,218	5,852	4,055	9,018	161,012
Total bills on hand	35,402	86,655	30,052	33,329	19,944	9,279	43,470	19,936	14,137	22,746	12,188	18,632	(c)344,770
U. S. Governm't long-term securities	610	2,861	877	7,945	1,152	[illegible]	20,172	2,236	1,859	8,849	3,969	2,512	[illegible]
U. S. Governm't short-term securities	[illegible]	6,048	3,231	3,383	2,364	5,784	5,417	1,793	2,039	2,210	2,327	3,788	41,070
Municipal Warrants			126	32		10					[illegible]		214
Total Earning Assets	[illegible]	94,564	[illegible]	[illegible]	23,460	[illegible]	69,059	[illegible]	18,035	33,805	18,530	24,932	439,983
Due fr. other F. R. Bks. net	6,403		2,500	4,867		3,623	1,211	1,160	1,487	1,430		2,986	(b)1,337
Uncollected Items	15,238	58,525	30,743	15,418	14,137	11,292	31,506	[illegible]	[illegible]	13,336	11,887	13,864	237,704
Total deduction from gross deposits	21,641	58,525	33,243	20,285	14,137	14,915	32,717	14,529	10,176	14,766	11,887	16,850	239,041
5% redemption fund against F. R. bank notes										400	100		500
All other resources						166			19		120	99	[illegible]
TOTAL RESOURCES	131,773	809.564	153,417	171,401	83,335	[illegible]	289,261	82,712	76,945	113,974	72,797	102,602	2,132,179
LIABILITIES													
Capital Paid in	[illegible]	12,220	[illegible]	6,460	3,475	[illegible]	[illegible]	3,269	2,559	3,367	[illegible]	3,987	59,354
Government Deposits	[illegible]	2,278	1,691	[illegible]	1,662	1,721	7,602	231	2,397	20	2,001	142	25,030
Due to members - reserve account	74,805	442,087	70,532	[illegible]	37,100	26,557	158,597	43,810	38,522	67,056	31,745	61,124	1,151,704
Due to nonmember banks clearing acc't		43,924				120	4,843	16	1			1,875	50,779
Collection Items	13,571	[illegible]	28,397	13,886	11,773	7,695	19,388	10,675	3,550	9,122	3,777	6,570	164,449
Due to other F. R. Bk's net		22,323			1,728						579		
Total Gross Deposits	91,375	546,657	100,620	116,443	[illegible]	[illegible]	190,430	54,270	44,470	76,158	38,102	69,711	1,391,962
F. R. Notes in actual circulation	[illegible]	249,067	47,259	48,391	27,516	30,433	[illegible]	25,152	29,916	26,405	31,916	28,904	(a)670,246
F. R. Bank Notes in circulation, net liability										8,000			8,000
All other Liabilities incl. Foreign Govern't credits	437	1,620	270	107	81		[illegible]	21		44			2,617
TOTAL LIABILITIES	131,773	[illegible]	153,417	171,401	83,335	[illegible]	289,261	82,712	76,945	113,974	72,797	102,602	2,132,179

(a) Total Reserve notes in circulation, 670,246.
(b) Difference between net amounts due from and net amounts due to other Federal Reserve Banks, 1,337: The Gold Reserve against net deposit Liabilities is 71.[illegible]; Gold and lawful money reserve against net deposit liabilities 78.6%. Gold Reserve against Federal Reserve Notes in actual circulation, 81.4%.
(c) Bills discounted and bought; municipal warrants: 1—15 days 138,774; 16—30 days 63,338; 31—60 days 90,801; 61—90 days 50,462; over 90 days 1,599. Total 344,974.

THE NATIONAL CITY BANK OF NEW YORK

1917

Economic Conditions
Governmental Finance
United States Securities

NEW YORK, NOVEMBER, 1917.

Second Liberty Loan.

THE exact figures for subscriptions to the Second Liberty Loan, which closed on October 27th, are not available at this writing, but it is known that the loan is a splendid success. The amount called for by the Treasury was $3,000,000,000, with an offer to accept one-half of an over-subscription and an intimation that $5,000,000,000 would be a good mark to try for. The latter is a stupendous sum to be raised at one time and the fact that $3,000,000,000 was the sum definitely called for undoubtedly made some difference with the result, but apparently over $5,000,000,000 has been raised. This does not include any conversions, and is the largest amount of new money ever raised in one loan by any country.

The apportionment of the Treasury to the twelve reserve districts, based upon banking resources, is given herewith.

	Minimum	Maximum
Boston	$300,000,000	$500,000,000
New York	900,000,000	1,500,000,000
Philadelphia	250,000,000	415,000,000
Richmond	120,000,000	200,000,000
Atlanta	80,000,000	135,000,000
Cleveland	300,000,000	500,000,000
Chicago	420,000,000	700,000,000
Minneapolis	105,000,000	175,000,000
Kansas City	120,000,000	200,000,000
St. Louis	120,000,000	200,000,000
Dallas	75,000,000	125,000,000
San Francisco	210,000,000	350,000,000
	$3,000,000,000	$5,000,000,000

Every one of the districts has raised the minimum quota, and probably one-half of them have gone above the maximum. The total for the New York district is believed to be approximately $1,600,000,000, which should satisfy even the most malign critic that the banking interests of this city are giving whole-hearted support to the government. Railway and other corporations, with financial headquarters in New York, and whose bank accounts here swell the New York allotment, divided their subscriptions more generally this time than in the former loan, and this makes the New York total more remarkable.

The full result gives proof which will be accepted the world over as evidence that the American people will support their government with all their resources. All sections of the country and all classes of our people have responded heartily. The number of subscribers is not yet announced, but is known to be enormous, and this is the best part of the success. Groups of wage-earners have responded with something like unanimity. Townships are reported where every farmer subscribed. Our population of foreign descent, including Germans, have given a splendid exhibition of loyalty. In those localities, usually rural, where subscriptions have fallen below expectations, the fact may be fairly attributed to unfamiliarity with bond investments, and failure to see the situation in its true proportions.

The ability to absorb great popular loans grows as they are repeated. The organization becomes more effective in its work of presentation, and the public interest increases. The people who subscribed to the first loan came in, generally, on the second, and became workers for it, and as the bond army grows, a feeling of loyalty and enthusiasm develops among the members, akin to that which inspires the armies in the field.

Credit for the success of this great issue must be largely given to the army of volunteer canvassers, speakers and workers, who put in a month of time arousing interest to the pitch which produced the wonderful results of the last days. The effect of their work was cumulative. The enthusiasm at the end swept everybody along, but the labors of the first weeks were a necessary part of the campaign.

The necessity for general participation becomes more apparent as we go along. The proceeds of the loans are disbursed broadly. They go mainly at first hand to wage-earners employed upon government work, but are passed on quickly to the farmers and all classes. In order to keep the government's purse full, these disbursements must be quickly caught up, either through taxation or loans, and returned to the Treasury for use over again. The more directly it is returned the better, for every dollar of un-

necessary expenditure tends to produce effects that are embarrassing to the government and weakening to the economic situation.

One of the chief gains realized by having the bonds widely distributed is that the subscribers will have a direct inducement to save for their payments and to add to their holdings. When everybody does this, the country will be actually paying the cost of the war as it goes along. It is a great achievement to get $5,000,000,000 subscribed to the loan; but it will be an even greater achievement to get these subscriptions completely paid up, and the decks cleared for a repetition of the act. About $2,000,000,000 of this new money will go to take up the Treasury certificates already issued, and by the time the last payments on the loan are made, January 15, the proceeds of the loan will be spent, and Treasury certificates will begin to issue against the next loan.

Government Expenditures.

Now that the second war loan has been subscribed, we have another breathing spell and it is in order to cast a look ahead upon the future demands of the Treasury. Congress has authorized, pursuant to Treasury estimates, the sale of $10,538,945,460 of obligations of various kinds, in addition to $7,000,000,000 first authorized in April last, $2,000,000,000 of which were issued in June. Of the $538,945,460, $63,945,460 will be used to refund an outstanding issue and the remainder is to reimburse the Treasury for disbursements against which bonds were originally authorized.

With $2,000,000,000 raised in the First Liberty loan, if $4,000,000,000 is accepted in the Second Liberty loan, the further amount of obligations authorized is $11,475,000,000. These, however, are not all authorized in the form of bonds. Four millions may be issued only in Treasury certificates, and $2,000,000,000 in war savings certificates. The former are issued for short terms, and are particularly designed to be taken by banks, to bridge over the periods between loan offerings. The war savings certificates are intended to be a popular and convenient form of obligation for sale on small payments. Deducting these issues, there remain $5,475,000,000 which are to be offered in bonds similar in detail to those of the Second Liberty loan.

All of these offerings, together with the taxes levied, were estimated by the Treasury to somewhat more than cover the prospective requirements of the Government, including its loans to allies, up to July 1st, 1918. It has not been supposed, however, that all of the Treasury certificates or war savings certificates would be outstanding at the same time. They serve temporary purposes, and are convertible into the several issues of bonds. Congress will be in session from early in December, throughout the remainder of the fiscal year, and will provide for other bond issues as needed.

The real problem is, how fast will the program adopted by the government require disbursements to be made? Figures have been given in the newspapers ranging from $14,000,000,000 to $19,000,000,000, as the amounts required during this fiscal year. It is evidently difficult to make a close estimate upon enormous operations, involving so much work that is out of the ordinary run. On the face of the proposition it looks impossible to expend that amount of money for the purposes in view, within the time stated. The major portion of the expenditures are for fabricated goods, and the total value of all the manufactures of the United States in the year 1914 was $24,246,000,000, and in 1909, $20,672,000,000. It is true that prices are now much higher than in those years, but some idea of the volume of business involved in the expenditure of even $14,000,000,000 can be gained by the comparison. The total expeditures for the first four months of the year has been approximately $3,000,000,000, and for the month of October, $1,000,000,000. Presumably, they will increase, particularly for shipbuilding and aeroplanes, but how much can they be advantageously increased?

Private Work Must Be Reduced.

If $18,000,000,000 or $20,000,000,000 are to be expended upon government work it is certain that private work must be more drastically curtailed. The available supply of labor is limited, and competition for it increases costs without increasing product. The payment of extraordinary wages will attract labor to the war industries, but if it is drawn from coal mines, railways and farms the situation may be so disorganized that even war work will be impeded. The situation is most effectually handled by having the government exercise priority rights. It is doing this as to materials and equipment, and may have to go farther and exercise a priority right to labor. If conscription for government work is deemed impracticable, the object may be accomplished by restricting the employment of labor in non-essential industries.

The urgent demands of this government have interfered in some instances with work being done for the allies, and this has brought up the question whether it is good policy to curtail work for them, and loans to them, in order to hasten our own preparations. It is certainly true that, being at war, we should not be dependent upon others to fight for us, and the nation would not be content where its own honor and interests are involved to play the part of a mere purveyor of supplies. On the other hand, our allies have trained armies already in the trenches, and supplies for those armies may be even more important at the moment than preparations to put an army of our own in the field later. The disaster which has just occurred to the Italian armies illustrates this.

Inflation.

There is much discussion, both in this country and England, over the effects of borrowing for the purpose of subscribing to the government loans, critics of the policy alleging that it causes an inflation of credit similar to that resulting from issues of paper money, thus bringing about a higher level of prices and costs, and adding to the cost of the war.

It cannot be denied that borrowing does directly increase the amount of credit in use, but the effect is not quite the same as an increase in the supply of money. An increase in the supply of gold, or of paper money where gold payments are suspended, enlarge bank reserves, tends to ease the money market and encourage borrowing. That effect was seen following the heavy importations of gold into this country in 1915 and 1916. On the other hand the borrowing which is done for the purpose of subscribing to the government loans, instead of increasing reserves, increases deposits, and thereby reduces the percentage of reserve, and tigthens the money market.

This, however, is not all that happens. It is perfectly true that if after borrowing to create new purchasing power, and turning that purchasing power over to the government, the public goes on its usual course, attempting to use as much purchasing power on private account as before, there will be a congestion of demands for labor and materials which cannot be met, and which will inevitably force up prices.

It would seem that a considerable degree of such expansion in financing a war is unavoidable. The wants of the government are imperative, they are on an enormous scale, and they cannot be immediately met except by the use of credit. It is impossible for the people to at once adjust their private affairs to the new state of things. Business will tend to go along in its accustomed channels, and the scale of living expenditures cannot forthwith be radically changed. There is so much fear of business stagnation that people argue seriously in favor of expenditures as usual. Gradually, however, the natural remedies make themselves felt. Prices rise, the government establishes priority rights, trade channels are congested, and it becomes apparent that the demands in the market are greater than can be satisfied.

The Federal government is appealing to municipalities to abstain so far as practicable from new public works during the war, for two evident reasons, to wit: that the financing of such works must interfere with the war loans, and that the demand for labor and materials must interfere with the war work. The same reasoning applies to private expenditures. The act of saving withholds purchasing power, releases labor to the Government, and holds inflation in check.

It will be agreed that it is very undesirable to have the general level upon which business is done lifted higher than it is. Already grave apprehensions are felt about it, looking to the period of readjustment after the war. The rise of living costs has been an important factor in the rise of all costs, but at this time there is a fair prospect that food prices may be stabilized by the large crop yields of the year. Nevertheless, if the demands on the industries are beyond their capacity the general level of wages and prices will continue to rise until checked by the sheer inability of the public to make purchases, or by effective price regulation. The latter, coupled with arbitrary distribution, may justify itself by restraint upon inflation.

Up to this time there has been but little movement in farm lands, but reports are now current of increasing sales and higher prices. A leading farm journal of the Middle West says that "a boom is on in farm lands." It is natural that farmers, getting high prices for their products and having surplus funds for investment, should want to buy more land. If the movement signified that more people were becoming farmers, and more land was being brought under cultivation, it would be regarded favorably. Unfortunately that is not the case generally. It is another phase of inflation, due to the same impulse which causes industrial managers to bid against each other for labor and materials. An extensive land movement involves the use of credit and ties up liquid capital. If farmers will put their surplus funds into the Government loans the farming industry will be in better condition after the war than if lands are lifted to higher levels and the mortgage indebtedness upon them is increased.

Bankers have an important duty to perform in restricting the use of credit for unnecessary purposes. There is perhaps no other influence which can do so much to hold inflation in check, and they should act with a sense of public responsibility.

Financial Affairs.

The money market has been stable throughout the past month, notwithstanding the unusual demands upon it. Early in the month a Money Committee was organized in New York, headed by the Governor of the Federal Reserve Bank, and with the Presidents of eight of the larger banks and trust companies as members. A fund of $200,000,000 was placed at its disposal, the purpose being to meet any unusual demands and see that all legitimate needs were cared for. About one-half of the fund was used. It is probable that the Committee will be continued.

Without much change in rates the tendency has been to greater strength. Time money is 5½ to 6 per cent.; commercial paper about the same; call loans 3 to 4 per cent. Country bank borrowings have been light, but balances here have been reduced by constant withdrawals through the Federal reserve banks. Payments by interior banks for the succeeding issues of Treasury certificates have not been equal to these withdrawals, as appears by the losses of the Fed-

eral Reserve Bank of New York through the gold settlement fund. On August 3rd the New York bank had $255,000,000 to its credit in the gold settlement fund, since then it has transferred $50,000,000 from its vaults to replenish the fund, and on October 26th it had $36,496,-000 to its credit there. The movement to the country is usual at this season, but may be reversed by payments upon the government loan. The money market is not expected to show much change between now and the first of the year.

The principal items of the Clearing House statement show changes between September 29 and October 27, as follows:

	Sept. 29	Oct. 27
Loans	$3,942,269,000	$4,376,116,000
Demand deposits	3,535,640,000	3,565,576,000
Government deposits	240,626,000	459,317,000
Reserves, incl. vault cash	653,748,000	637,127,000
Excess reserve	77,012,000	55,553,000

The movement of state banks and trust companies into the Federal reserve system continues on an important scale, the larger institutions leading. The President of the United States has issued a public letter urging all who are eligible to take the step, lending their aid to complete the financial organization of the country. The consolidated statement for October 26, shows total gold holdings of $1,503,-436,000, and reserve deposits of $1,264,323,000. Federal reserve notes in circulation now amount to $847,506,000, against which Federal reserve agents hold $614,692,000. Total earning assets are $684,959,000, and paid-up capital $62,629,000.

A committee of Canadian bankers has been in Washington, asking a relaxation of the embargo upon gold exports. This is the season of crop-moving there, and it has been customary for money to move from New York, as it moves to our own agricultural states. There is every reason why the wants of Canada in this respect should be supplied. The trade balance is in her favor, and we owe the money; moreover, New York, as the chief financial center of the continent is the place where Canadian bankers naturally employ their surplus funds, but of course it is a condition of such employment that they shall be able to withdraw their funds when they have use for them at home. It is understood that satisfactory arrangements have been made.

Branches of the Federal reserve bank of Cleveland have been determined upon at Pittsburg and Cincinnati. Branches of the San Francisco bank have now been opened at Spokane, Seattle and Portland.

During the past month Germany's seventh war loan has been closed, and a Berlin dispatch reports the subscriptions at 12,430,000,000 marks, or about $3,100,000,000. The total of seven loans is 72,761,000,000 marks, about $18,-000,000,000.

The British government began on October 2 to issue a new series of war bonds, paying 5 per cent. interest, repayable October 1, 1922, at 102, October 1, 1924, at 103, and October 1, 1927 at 105. It also offers a 4 per cent. bond, exempt from income tax, except super taxes, repayable October 1, 1927 at par. These bonds are convertible into the last issue of war bonds at 95. They are said to be selling very freely.

Bond Market.

The second Liberty Loan has absorbed the undivided attention of the banks, bond houses and trade organizations throughout the country during the month of October. In many territories the number of expert bond salesmen available for the work was reduced from twenty-five to fifty per cent, as compared with the first Loan on account of the number who had gone into military service.

During the month bond prices declined about 1½%, the average price of forty selected Wall St. Journal issues on October 27 being 86.73, compared with 88.15 on September 27, 1917, while the decline compared with October 29, 1916, was 8⅜%.

No public offerings were made, but it was announced that B. F. Goodrich Rubber Company sold privately an issue of $15,000,000 6% notes covering a period of two years; in serial form at three months' time with required renewals. This is in effect a consolidation of their outstanding short term indebtedness.

Liberty Loan 3½s remain firm with considerable trading slightly under par.

The municipal market has been firm during the month. Early in October the City of Milwaukee, Wis., offered $1,090,000 4½% bonds but sold only $250,000 to a local bank, bids for the balance being rejected. The City of Cincinnati sold $920,000 4¾% bonds at an average price slightly under 102. The City of Dallas offered $500,000 4% bonds but rejected all bids.

General Business Conditions.

Judged by the consumption of coal and the traffic of the railways, two very good indices, industry and trade are up to the limit of facilities. More coal is being mined than ever before, but not enough to supply the demand; more freight is being handled by the railways than ever before, but they cannot promptly move all that is offered. Business is harassed by many uncertainties and vexations, and war business is interfering with peace business. Government orders are taking up more of the productive capacity than was predicted of them some months ago. General trade is good, and merchants have confidence that it will keep up, because the buying power of the population is enormous. Stocks in first hands are light, and owing to high prices distributors are disposed to avoid heavy stocks.

It goes without saying that the labor situation is acute, for there literally is no limit to

the demand for men. The ship-yards are wanting them by the hundred thousand, and employers in various lines are bidding against each other for them. There is, of course, no prospect of an enlarged supply of labor, except as women are introduced into new occupations, but this is constantly going on. In the matter of industrial relations, developments on the whole are reassuring. The most serious disturbances of recent months have been either formally settled or are in process of adjustment, and in many instances settlement has included agreements which look to the amicable adjustment of any further differences that may arise during the war. The recognized labor leaders have used their influence to compose the difficulties, and to keep work going. It is not to be expected that in abnormal times like these all friction can be avoided, or that no unreasonable action will be taken, but it seems due to say that the leaders and the rank and file have shown a patriotic spirit. There has been recognition among both employers and employees of the public interest in the uninterrupted activity of all the essential industries. As the war goes on we may hope that the spirit of patriotism will grow stronger, and that all will feel in increasing degree the importance of national unity, and of maintaining the industries at their highest efficiency. Some observers are sanguine enough to think that industrial relations will be permanently better because all classes will draw closer together during the war.

Bradstreet's report of building permits granted for the nine months ending with September, 139 cities, shows aggregate values $583,676,569, against $766,500,058 in corresponding period 1916. The same authority gives cotton consumption in September, 569,357 running bales, against 529,227 in September, 1916; bituminous coal shipments in August, 72 roads, 703,177 car-loads, against 634,607 carloads in August, 1916; anthracite coal shipments, nine months, 1917, 57,778,097 tons, against 49,930,416 in same month 1916, and 48,556,940 same period 1915; shipments of Southern pine, August, 1917, 503,832,714 feet, against 452,793,168 in 1916; shipments Western pine, August, 139,128,575 feet, against 103,696,277 feet in that month of last year. With the exception of building operations, all of these figures indicate an expansion of business.

Crops are moving to market slowly, and this is true not only of wheat, which is under price control, but of oats and cotton which have a free market. This fact supports the view that the delay is because of the activity of farmers with fall work. The visible supply of wheat in the United States and Canada on October 20, was 55,890,000 bushels, against 112,270,000 a year ago; of corn, 2,045,000, against 5,382,000 a year ago, and of oats 23,087,000, against 62,719,000 a year ago.

Food Supplies.

The most vital factor in the economic situation is recognized to be food supplies, and the outlook has been greatly improved by the assurance of an immense corn crop. All of the grains, except wheat, are above the average of the last five years. Sugar beets, potatoes, onions, beans, cabbages, and vegetables generally are above the yields of any previous year. The product of the commercial canneries is larger than ever before, and the amount of family canning and drying is estimated to be several times that of any previous year. The garden movement has been a success, and it has been a very important factor in the solution of the food problem. All of the organizations for promoting the movement should be kept alive for next year, and should plan now for more effective work next year.

The apple crop is 176,620,000 bushels, as compared with 202,245,000 in 1916 and 215,572,000, the five year average. The hay crop is 91,715,000 tons, as compared with 109,786,000 tons in 1916, and 86,587,000, the five year average. The falling off in hay is in part, if not fully, made good by greater supplies of fodder.

So far as grain and vegetables are concerned, this country is well supplied, and should be able to cut down wheat consumption in order to supply its allies who are obliged to look largely to this country and Canada. The Department of Agriculture estimates our production at 659,797,000, and our normal consumption plus seed requirements at 637,082,000. Estimating a 10 per cent. reduction of consumption, it calculates the available surplus at 77,696,000 bushels. The Canadian surplus is estimated at about 200,000,000 bushels. The required imports of the allies and neutrals are estimated at 450,000,000 to 480,000,000 bushels.

Favorable news comes from Argentina, where the wheat harvest is about to begin in the northern states. The total yield of the country is estimated at 6,000,000 tons, or about 220,000,000 bushels, which would be a record production. The maximum domestic requirement for food and seed would leave at least 150,000,000 bushels for export. Australia and India have large stores of wheat from the last crop, and another crop coming on during our winter season, but unfortunately they are so far away that with the present scarcity of ships these supplies are almost unavailable. Argentina is nearer, but it is farther away than the United States, and this country and Canada are the chief reliance.

The very high prices that have ruled for corn during the past summer, and the loss of pasturage and hay in sections affected by drought.

have caused great numbers of cattle to be forced to market. They have been bought liberally by the farmers of the middle west, but slaughtering has been at a high rate. Official figures of animals slaughtered under government inspection in the first seven months of this year, show that hogs fell off over 3,000,000 head, and sheep 800,000 head, but cattle increased 1,200,000. These figures do not take account of the fact that the average weight of animals was less than usual. The high prices of all grains for the last year have been adverse to live stock and dairy production. It has paid better to sell corn than to feed it to animals, and in truth when food is scarce it is better economy for human beings to eat the grains than to make meat with them. A certain amount of meats, and particularly of fats, are, however, required, human habits are not readily changed, and in the long run the farmers who stick to meat production are likely to fare better than a shift at a sacrifice to grain farming.

All the packing houses are now operating under supervision by the Food Commissioner, and the effect of regulation here, as with wheat, has been to eliminate forward trading, or speculation. A situation where profits are limited without any protection against losses does not attract traders. The immediate effect is favorable to consumers, but farmers are claiming that if competitive buying of their products is eliminated, minimum prices should be established throughout. The operations of the Food Commissioner are being constantly extended.

The winter wheat acreage for the ensuing season is being increased over the entire country, and if weather conditions are favorable the largest crop of wheat ever grown should be harvested next summer. Mr. Hoover is hoping for a billion bushels. The government guarantees $2 per bushel to the grower, and in view of the efforts which Great Britain is making to become more nearly self-sustaining, and of the stimulus to production in all neutral countries, it is quite possible that the government may have to take a loss. If it does the money will be well spent.

The Railways.

The Inter State Commerce Commission has taken action which indicates its own desire to at once reopen the case of the railways in their appeal for higher rates. In its decision rendered on June 27 last the Commission, while granting the petition in part only, held that a conclusive showing had not been made for the full 15 per cent. asked, but that it would permit a further presentation of the case later. At a preliminary hearing last week counsel for the eastern roads asked that a re-hearing upon the merits of the case be fixed sixty days hence, at which time the roads would present a statement of their earnings and expenditures during the fall months. The Commission, instead of simply granting the request for a re-hearing at that time, suggested through a letter by its Secretary that if, as alleged, earnings were inadequate to meet increased operating expenses a delay of sixty days in beginning the hearing was inadvisable, and asked that the evidence be submitted at once. The hearing was set accordingly, for November 5th.

Although the final action of the Commission will be based upon evidence yet to be submitted, the facts are so well known that its proposal to advance the case is interpreted as favorable to the roads. Unquestionably public sentiment has been growing in their support, and has been helped by the spirit they have shown in consolidating their operating resources to secure the highest possible efficiency.

Electric Power on the C. M. & St. Paul Railway.

In the September number of this Bulletin we gave a sketch of the development of the steam engine in recent years, showing the gains that have been achieved in efficiency and economy of coal consumption. A few months ago we gave a statement from the superintendent of motive power of the Pennsylvania Railroad Company, showing that within the last five years that company has practically doubled the coal efficiency of its locomotives, at an increase of about 30 per cent. in capital cost. Pursuing the same line of inquiry, to the substitution of hydro-electric power for steam power we give below a statement from Vice-President Goodnow, of the Chicago, Milwaukee & St. Paul Railway Company, upon the results of electrical propulsion over its Rocky Mountain division, in October, November and December, 1916, as compared with steam propulsion in the corresponding months of 1915.

The statement does not go into comparative costs in dollars and cents, which would be a very complicated calculation, but that a conclusion has been reached favorable to electricity, at least under similar conditions, is evident from the fact that the company is now installing electrical equipment on its Cascade division.

The facts given by Mr. Goodnow show that electricity is decidedly superior to steam in operating efficiency, especially in cold weather, and if the use of electric power increases the capacity of a road, enabling more trains to be operated over the same tracks, of course that fact is a very important element in the total cost of supplying transportation. The superintendent of the Rocky Mountain division has expressed the opinion that to have handled the traffic in the winter of 1916 without electricity, double tracking would have been necessary.

In this connection it may be added that an important consideration in the decision of the Pennsylvania Railroad Company to electrify its suburban service between Philadelphia and Paoli was the fact that it could thereby avoid a costly enlargement of its Philadelphia terminal.

An interesting feature of electrical propulsion is the fact that 11.3 per cent. of the power consumed during the months under review was generated by the trains themselves on the down grades, but Mr. Goodnow says that this regeneration is reckoned as of minor importance compared with the ease and safety of handling the trains on grades, and the lessened wear and tear on equipment. Other authorities say that the most valuable feature of this power generation is the "dynamic braking," or the holding of the train at a uniform speed on down grades without the use of air brakes. Longer and heavier trains and greater speed are possible than with the use of air brakes.

The summary of the record of steam and electric operation in the periods under comparison is given below:

CHICAGO, MILWAUKEE & ST. PAUL RAILWAY CO.

Electrification Department

Data on Operation Under Steam in 1915, and Under Electricity in 1916

	Rocky Mountain Division	*October*		*November*		*December*		*Total*	
	Passenger	Steam	Electr.	Steam	Electr.	Steam	Electr.	Steam	Electr.
1	Train or Train Engine Miles	39,426	40,169	41,276	40,549	38,628	38,519	119,330	119,237
2	Helper Engine Miles	4,738	......	7,966	......	12,048	......	24,752	......
3	Number Engines	13	7	13	7	13	7	13	7
4	Train Miles per Engine	3,040	5,730	3,180	5,800	2,970	5,510	9,190	17,040
5	1,000 K.W.H. at Power Co.'s Meters	......	1,217	......	1109.5	......	1,152	......	3478.5
6	K.W.H. per Train Mile	......	30.3	......	27.4	......	29.9	......	29.1
7	Coal, Total Tons	3,380	......	4,150	......	3,730	......	11,260	......
8	Coal, Pounds per Train Mile	171	......	201	......	193	......	188	......
	Freight								
9	1,000 Ton Miles	98,512	125,522	93,228	130,848	91,122	107,717	282,862	364,087
10	Train Miles	60,666	65,400	58,014	63,299	58,257	57,311	176,937	186,010
11	Helper Engine Miles	16,605	7,022	20,422	7,544	19,336	5,591	56,363	20,157
12	Number Engines	42	15	41	15	44	15	43	15
13	1,000 Ton Miles per Engine	2,405	8,370	2,270	8,720	2,070	7,170	6,745	24,260
14*	Number Subdivision Trains	535	585	523	583	526	543	1,584	1,711
15*	Ton Miles per Train Mile	1,625	1,920	1,605	2,070	1,563	1,880	1,600	1,960
16	Total Time, Hours	6,094	5,022	5,946	5,084	5,785	4,429	17,825	14,535
17	Minutes per 1,000 Ton Miles	3.70	2.40	3.83	2.33	3.81	2.47	3.78	2.39
18	1,000 K.W.H. at Power Co.'s Meters	......	4,696	......	5,119	......	4,528	......	14,343
19	K.W.H. per 1,000 Ton Miles	......	37.4	......	39.1	......	42.0	......	39.4
20	Total Tons Coal	12,150	......	13,670	......	13,230	......	39,050	......
21	Pounds Coal per 1,000 Ton Miles	247	......	294	......	291	......	276	......

* "Subdivision Train"—One train over one Subdivision: Divide by 2 for trains over entire Division.

* "Ton-Miles per Engine-Mile" equals tons per train with one electric engine and short helper service, or with one steam engine and longer helper service. In this connection consider Item 17.

Total Regeneration over entire Division, month of November, equals 11.3% of consumption at motors.

Passenger on 2% grade, January 21-27, 1917.—Regeneration = 42.8% of consumption at motors.

Passenger on 1.66% grade, January 21-27, 1917.—Regeneration = 23.1% of consumption at motors.

Statement by Vice-President Goodnow.

Chicago, August 31st, 1917.

The National City Bank,

New York City, N. Y.

Gentlemen:—

Referring to your letter of August 6th, I attach hereto a blueprint which shows you the approximate tons of coal used for October, November and December, 1916; item No. 7 for passenger service and item No. 20 gives the same information for through-freight service. The figures do not include coal used for switching or work trains, which figures I have not conveniently available. Item No. 5 of this table also gives the kilowatt hours used for passenger service, and item No. 18 gives the same information for through-freight service.

I might state, however, in this connection that the question of relative cost of fuel is only one of a good many items which affect the question of relative economies under steam vs. electric operation, as I believe the following will indicate to you:

In the first place, although the figures shown on the blueprint show up favorably for electrical operation, they can by no means be considered as final, inasmuch as the comparative figures for steam operation represent the results of many years of effort and experience, while the figures for electricity are based on the use of apparatus and a system which is entirely new in many respects, and at the time the figures were prepared, on an operating experience of less than one year. The figures are given for the Rocky Mountain Division only, as they have not been compiled in a similar manner for our Missoula Division.

Harlowton is the eastern terminus of the Rocky Mountain Division, and is the station where electric operation begins. Deer Lodge is the western terminus of this division, while Three Forks, located about midway between the two above named points was formerly a steam engine division point. Under steam operation, train engines were changed at Deer Lodge, Three Forks and Harlowton. Thus, a steam locomotive made about 113 continuous miles. At the end of that run it was put in the roundhouse or shop to have it cleaned, boilers washed, etc., and for any light repairs. This necessitated a large roundhouse and shop force at each of the three above mentioned points. Freight trains were tied up in the yards and there were the usual other costly and vexatious delays. All train and engine crews changed at each of the through subdivision points mentioned, except passenger train crews which ran from Deer Lodge through to Harlowton. Under steam, the

cabooses and many of the engines were assigned which of course made it necessary to take the caboose from the train at each subdivision point.

With the introduction of electricity we were able to double what I may call the cruising radius of our locomotives. As far as the railroad is concerned we have eliminated Three Forks entirely. All locomotives run the entire 226 miles from Deer Lodge through to Harlowton with only a light inspection at Three Forks of bearings and pantographs. The shop and roundhouse are entirely closed down, seven or eight miles of tracks have been removed and the comparatively large roundhouse force previously employed has been replaced by a single electrician. All locomotives and cabooses are pooled, the men being given suitable locker space to store their lanterns, flags, tools, etc. Through freight trains do not leave the main track and often are not switched at all. At Harlowton the engine is given a rough inspection and any light repairs made that are necessary. Detailed inspection and maintenance work is done at Deer Lodge.

The same change in operation as referred to above has been effected on the Missoula Division, Avery to Deer Lodge; in this case Alberton being the steam engine division point eliminated.

The blueprint being sent you also shows for the Rocky Mountain Division a comparison of locomotive performance for October, November and December, under steam operation in 1915, and electric operation in 1916. It should be understood that the figures given, while sufficiently correct for comparative purposes, as they are taken from the same report forms, are not to be considered as strictly accurate when considered individually, the forms being those from which the data could most conveniently be obtained.

Item No. 2 on the blueprint shows that helper engine miles increased under steam as the temperature decreased, this being due to the difficulty of "steaming" the locomotives during extremely cold weather and making it necessary to operate helper engines in connection with passenger trains, over long distances. This helper service for passenger trains, with its extra crew cost, switching delays, etc., has been eliminated under electricity.

By reference to item No. 3 on the print, showing the relative number of engines required for electric vs. steam operation, you will note that less than half as many electric locomotives are required compared with steam engines, for the same service.

Item No. 9 under freight data, "Thousands of Ton Miles" shows an average increase during the months of electric operation of 28.8 per cent. over that of steam. For November the increase was 40 per cent. In this connection the superintendent of the division has stated that to handle the 1916 business, either electrification, or with steam,—double tracking, was necessary. The latter would of course, have required extra motive power. Possibly the superintendent did not intend his statement should be taken literally, but in any event it is reasonable to assume that under the business conditions which existed during the period under consideration, and the resulting congestion, the steam figures would be, for steam, too favorable.

Item No. 11 indicates that under freight service and for the same ton miles, there would be over three times as many helper engine miles under steam as under electricity, the cause for this being due largely to the same conditions as applied under passenger service.

Using the figures as they stand, we find from item No. 13, "Thousands of Ton Miles per Engine," that the electric engine handles about 3½ times as many ton miles per month as the steam engine, and from item No. 17, "Minutes per Thousand Ton Miles," that the electric engine cuts from the time to do a given business, 30 per cent., partly by faster running and partly by heavier trains.

Item No. 15, "Ton Miles per Train Mile," is about the same as tons per train, and 22 per cent. greater for electricity than steam.

As to the effects of regeneration on the power consumption, it will be noted that for the month of November, the amount of regenerated power measured at the locomotives was 11.3 per cent. of the total power consumed at the motors. I may say, however, that the power saving features of regeneration is not considered so important by us as the increased safety and ease with which trains are handled on the heavy mountain grades and the saving in wear and tear on brake shoes and equipment.

Truly yours,

C. A. Goodnow, *Vice-President.*

Norfolk and Western Railway.

The Norfolk & Western Railway has been operating for over a year with electric power over 29 miles of heavy grades upon its Pocohontas division, which includes the passage over the Allegheny Mountains. It has a heavy coal movement to handle. The company has made a statement about its experience with electric propulsion, from which we take the following:

"In the development of this business the company has taken advantage of all modern methods in steam traction, in respect to the use of maximum weight trains and the most powerful type of locomotives, and has thus reduced the movements over the division to a minimum. But it was found that track capacity was frequently reached in normal service and that growth of business could be cared for only by very expensive physical reconstruction. Careful study of the possibilities and economy of electric traction for these special conditions resulted in the conclusion that it would be practicable to increase the train speed greatly and that this, together with the elimination of delays occasioned by coaling and watering of steam locomotives, would enable a greatly increased tonnage to be handled at a reduction in operating cost which would return a substantial profit above interest and depreciation charges on the electric equipment, thus postponing the necessity for new trackage and other additions which would not directly reduce operating costs.

" . . . Twelve electric locomotives have been provided for the service, replacing thirty-four Mallet steam locomotives. Each electric locomotive consists of two units weighing 135 tons, giving a total weight of 270 tons for the complete locomotive.

"Electric operation has been in service too short a time to give data as to performance, but it may be said that the estimates of increased capacity to be obtained from this equipment have been fully met and that an unusually heavy tonnage has already been handled without congestion. The movement of the heavy tonnage trains by electricity has been effected with ease and smoothness; the trains accelerate promptly and without shock or jerk on the heavy grades, and it has been found that the full trains can be smoothly controlled by one head engine on the 2.5 per cent. down grade by electric braking alone and at a uniform speed slightly above that of the regular running speed. The acceleration of one of these heavy trains is impressive as regards the amount of power required. Preliminary tests indicate that getting a train in motion up the grade requires as much as 11,000 electrical horse-power and that running at uniform speed up the grade requires 8,000 electrical horse-power to be delivered to the train. It is believed that no such amount of power has ever before been developed on a single train, either steam or electric, in regular service."

Superiority of the Electric Locomotive.

Mr. F. H. Shepard, director of heavy traction, Westinghouse Electric and Manufacturing Company, in a recent number of the *Electric Journal* says:

"The recent noteworthy development of the steam locomotive has been accompanied by its greater complication as a machine, so that the cost of maintenance, as well as the necessity for skilled labor in its upkeep, has been in many cases a serious problem which has been conspicuously emphasized during the year. The greater simplicity and ruggedness of construction of the electric locomotive provide a very great freedom from this handicap. It is interesting to note that in any adoption of electric power for railroad service, commencing with each initial operation, there has been a distinct and progressive advantage in reliability of operation, as compared with steam. The electric locomotive of to-day, in its ability to handle the heaviest trains in congested service, to make long sustained runs and to remain continuously in service, has demonstrated its unquestionable superiority over any method of steam operation."

Conservation of Coal.

The conservation of our coal supplies is a subject of national interest. We owe it to succeeding generations not to consume coal unnecessarily. Moreover the fluctuations in consumption are so great that it is impossible to closely adapt the supply to the demand, as witness the shortage of coal at the present time, and the freqeunt intervals of idleness in the mining districts in the past. Mr. Shepard, in the article referred to, calls attention to the fact that one-fourth of the coal mined is consumed by the railways, and that the movement of this alone forms a very considerable part of the traffic demands on the railways. To the extent that hydro-electric power is substituted this consumption of coal and demand on transportation facilities will disappear. Unfortunately, although there are 40,000.000 to 50,000,000 horse-power of possible but unused water power in the country, most of it is under the jurisdiction of the Federal government, and tied up so tight that practically no new development is being made. The running waters, which will flow forever are closely guarded, in the name of conservation, while the coal supplies are depleted.

But even where coal is used to generate electricity in large stationary units, one pound of coal will produce as much power as two pounds burned under a locomotive boiler.

Prof. Robert M. Anderson, of Stevens Institute of Technology, in the article written for this Bulletin a few months ago, made a surprising statement showing that more than one-half of all the power used in the industries of this country is now electrically applied. Mr. F. H. Sniffin, in the October number of the *Electric Journal*, makes the even more surprising statement that during the years 1917 and 1918 power units will be installed in the United States aggregating in capacity 60 per cent. of the total steam generating capacity operating at the beginning of 1916. He adds:

"While this indicates a tremendous increase in the country's power demand, it involves, also, a very large transformation in the methods of generating power, for many small plants will be shut down, the power being taken from central stations, who themselves have increased their units to several times their former sizes, effecting thereby a great reduction in the cost of power. It is not at all unlikely that this transformation process will bring the fuel consumption of the country per unit of power consumed to one-half of what it was five years ago, inasmuch as it involves the discontinuance of uneconomical plants, and brings the central station fully into its proper economic function as a central source of supply, enabling it to operate profitably the largest and most modern types of generating apparatus."

Gains by Consolidating Power Production.

Mr. Samuel Insull, head of the Commonwealth Edison Company, Chicago, has been a leader in demonstrating the superior efficiency of large generating units and the gains that may be accomplished by supplying the diversified demands of a community from a central source, instead of by numerous small units. As long ago as 1911, Mr. Insull, in an address to the Commercial Club of Chicago stated that to generate the amount of power the Commonwealth-Edison Company was then distributing, by the methods of ten years before, would require 1,500,000 tons of coal per annum more than it was using.

Mr. Insull says that power for the railways should be supplied by electric generating stations also supplying the industries along their lines, and that a reduction of cost will thus be accomplished for all purposes. The practice of a separate power plant for every manufacturing establishment and for each railway train is uneconomical, and behind the times. The factor of diversity, alone, or, in other words, the fact that all consumers do not make their maximum demands at the same time, is enough to produce great savings in capital investment, and in operating costs by consolidating their demands. Furthermore, by using electric power it is possible in many instances to have the steam generating stations located at the mines, thus relieving the railways of coal traffic. Discussing the application of electricity to the railways, before the war, Mr. Insull said:

"According to the reports of the State Railway and Warehouse Commission, the coal consumption at the present time by the steam railroads of the State of Illinois is 11,620.000 tons. If the transportation business were operated electrically, assuming the coal consumption was three pounds per kilowatt-hour, there would be a saving of 7,500,000 tons of coal, or about 15 per cent. of the total coal production of the State of Illinois.* I do not know of any greater example of possible conservation of the resources of this great State than the gradual electrification of the steam railroads of the State."

As far back as 1910, the President of the British Institution of Electrical Engineers, proposed a scheme for dividing England into districts for consolidated production and distribution of power and estimated that the plan would accomplish a saving of from 80,000,000 to 100,000.000 tons of coal per annum. It is more than probable that this plan will be taken up in England, under public authority, after the war.

* Turbines of 30,000 kilowatt capacity are now producing at the rate of 1.5 lbs. of coal to a kilowatt hour, and turbines of 70,000 kilowatt capacity are under construction, from which still better results are expected.

This theory is approved and endorsed by Thomas A. Edison, who has said that it will not be many years before the public will hardly know what coal is. "Its use," he says, "will be segregated in vast power houses, and to the ordinary individual it will become a curiosity; as all users will obtain their light, power and heat from electrical distribution stations."

Mr. Insull, urging the concentration of power production in this country has recently said:

"It is a policy that is worthy of the greatest engineers and worthy of the thought of the greatest financiers in this country. It is a conservation of the truest order. If the same policy is carried out throughout the United States, the conservation of fuel will be something tremendous and the conservation of labor will be something tremendous. The letting loose of capital that can be used in other directions will stimulate business.

"There is no greater problem in the industrial world to-day, no problem that presents greater opportunities for the engineers to achieve distinction, no problem that presents greater opportunities for the financier to achieve distinction and profit, than the proper method of producing energy and distributing it in a given area; and involved in that question is the solution of the providing of money for that portion of the electrification of steam railroads that ends when the energy is put into the track."

Conserving Capital and Labor.

There are several reasons why this subject is especially pertinent and interesting at this time. One is that the world needs new industrial economies to help make good the loss of capital and labor in the war. There are people who will be alarmed at the idea of having the railways lose the revenue-producing coal traffic, and at the suggestion of a revival of water transportation, just as there are labor leaders who see nothing but injury to the wage-earning class in every new labor-saving method, but there is hope that the experience of the war will clear away many of these misapprehensions, and enable all to see how the common interest is served by industrial progress. If the war should teach this lesson so effectively that everybody would really comprehend it, the losses during the war would be a bagatelle compared with the gains that would be realized. It is an historic fact that the development of the steam engine enabled England to stand the cost of the wars with Napoleon and speedily enjoy a more widespread prosperity than the country had ever known before, and there is good reason to believe that electricity can do now what steam did then.

The gains by the development of electric power are typical of what may be accomplished in all branches of industry, and would be rapidly accomplished if popular thought could be centered upon the development of industry, rather than upon controversies over the division of the product.

The vital problem is not how to divide up the production of to-day for consumption to-day, but how to use the output of to-day to increase the production of to-morrow. That is the purpose to which all capital accumulations are put, whether they come from individual savings, accomplished by self-denial, or from profits in business. Everybody has a good word to say for savings, but profits, and especially large profits, are under suspicion. As a rule, however, both savings and profits have a common origin, in good management, and large profits usually represent savings accomplished by improvements and enterprise in industry. The aggregate profits of the Ford Motor Car Company are greater than of any other motor car company, but the profits on each car are less than with other companies, and that is typical of modern business. When savings and profits become capital they are indistinguishable, for they serve the same uses. One method of accumulation may be said to be passive and the other active, or one negative and the other positive. Personal saving by self-denial is to be commended, but something more than the instinct to hoard or the resolution to practice self-denial was required to develop the steam engine and the electric locomotive.

How will the electrification of industry and transportation be most speedily brought about? Is this progress to be accomplished by breaking down the industrial organization of to-day, or by withdrawing the incentives which stimulate individual ambition and effort? Will industrial progress be more rapid under such a state of affairs as exists in Russia, or by turning control in this country over to such organizations as the I. W. W.? A higher degree of organization and co-operation is wanted in our industrial system; a way must be found to offer greater incentives to the wage-earners, to increase their interest in production, but there is danger that arbitrary efforts to direct and regulate industry through political authority will have the effect of stifling individual enterprise and putting a brake upon progress.

Railway Electrification After the War.

The possibilities of railway electrification are especially interesting at this time, because they suggest a vast field open for construction work in this country and throughout the world, as soon as capital and labor can be had for it. There is naturally a feeling of uncertainty and apprehension as to industrial conditions after the war. The demand for war materials will fall off, the supply of labor on the market will be greatly increased, and it is a question whether all of this labor can be promptly placed in employment. It will be the most stupendous reorganization of industry ever known, and it is going to be a great social problem to accomplish this change without confusion, loss of confidence, and a period of stagnation. It is important that plans be laid on a large scale to take up the slack, and other countries are laying them. In this country, ready at hand, is the task of equipping the railroads, and other industries

where practicable, to operate by electric power. The undertaking would involve an enormous amount of work and of many kinds. Hydro-electric plants would require in construction a great amount of labor, cement, steel, and heavy machinery. The demand for copper would take the place of the war demand for that metal, and keep the copper mines busy. The demand for electrical equipment of all kinds, including locomotives, would be very great, for the enlargement of the facilities for supplying electric power would cause electricity to be more generally adopted for all the industries. The amount of work in sight, if a general scheme of electrification was undertaken, would be sufficient to relieve the business community of its fears as to idleness and poor trade for some years to come, and would thus encourage other enterprises to go ahead.

The danger will be in a pervasive feeling of uncertainty, causing men to wait with their own plans until they can discern the general trend, and waiting of itself slows down business. Large plans for the employment of labor which can be brought definitely forward at the critical time will serve to inspire confidence and support the whole situation.

The strength of the proposal is in the great amount of work of a semi-public character which it is possible to have done, and which would not only tide the country over the period of industrial uncertainty, but serve to put the country's industries upon a more economical basis permanently. Any reduction in the cost of power will strengthen the country's position in the competitive situation after the war. Every saving of this character will lessen the necessity for wage reductions after the war.

STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS OCTOBER 26, 1917.

(In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco	Total
Gold coin and certificates in vault	27,546	281,218	17,623	21,657	6,219	6,175	35,270	4,772	17,878	5,448	12,225	25,082	461,113
Gold Settlement Fund	[illegible]	[illegible]	38,043	52,368	30,394	3,859	72,842	21,158	5,370	38,480	15,679	27,231	363,967
Gold with foreign agencies	3,675	18,112	3,675	4,725	1,837	1,575	7,350	2,100	2,100	2,625	1,838	[illegible]	52,500
Total gold held by banks	53,268	335,826	59,341	78,750	38,450	11,609	115,462	28,030	25,348	46,553	29,742	55,201	877,580
Gold with Federal Reserve Agents	35,371	187,224	48,220	47,715	[illegible]	40,058	81,372	27,075	[illegible]	30,620	26,303	[illegible]	614,692
Gold Redemption Fund	1,000	5,000	[illegible]	12	715	540	391	768	393	517	848	[illegible]	11,104
Total gold reserves	[illegible]	[illegible]	108,511	126,477	67,894	52,207	197,225	55,873	61,366	77,690	[illegible]	81,611	1,503,436
Legal tender notes, Silver, etc.	4,037	40,276	[illegible]	352	157	[illegible]	1,816	613	322	45	[illegible]	387	49,506
Total Reserves	93,676	568,326	109,271	126,829	[illegible]	52,455	199,041	[illegible]	61,688	77,735	57,386	[illegible]	1,552,912
Bills discounted, Members	10,673	213,624	10,242	[illegible]	11,320	11,526	52,173	21,719	9,231	23,764	9,450	13,574	397,074
Bills bought in open mark't	24,046	88,564	13,357	18,101	5,731	2,775	7,715	2,428	1,787	1,237	7,847	4,002	177,590
Total bills on hand	34,919	302,188	23,599	[illegible]	17,051	14,301	[illegible]	24,147	11,018	25,001	17,297	17,576	c 574,684
U. S. Governm't long-term securities	610	2,426	[illegible]	7,947	1,296	893	* 21,007	2,233	1,860	8,853	3,972	2,519	54,166
U. S. Governm't short-term securities	[illegible]	16,074	3,128	3,693	2,364	8,945	4,948	1,793	3,037	2,210	2,252	54,346	55,876
Municipal Warrants			[illegible]	12		155			10		46		233
Total Earning Assets	38,215	[illegible]	27,287	[illegible]	20,711	24,294	[illegible]	28,173	15,925	36,064	23,567	24,841	634,959
Due fr. other F. R. Bks. net	3,111		6,497	11,269	2,036	1,114		6,002	2,512	3,695	2,263	6,395	b 6,896
Uncollected Items	[illegible]	55,216	32,885	18,199	17,893	19,266	37,151	19,873	10,017	17,551	15,629	19,3 9	281,677
Total deduction from gross deposits	21,709	55,216	39,382	29,468	19,929	20,380	37,151	25,875	12,529	21,246	17,892	25,794	288,573
5% redemption fund against F. R. bank notes										[illegible]	137		537
All other resources						100		345	524		122	63	1,254
TOTAL RESOURCES	[illegible]	914,230	175,940	195,648	[illegible]	[illegible]	322,035	111,079	[illegible]	135,445	99,104	132,696	2,528,365
LIABILITIES													
Capital Paid in	5,467	15,236	5,273	6,460	3,477	2,595	[illegible]	3,305	2,579	3,372	2,783	4,034	62,629
Government Deposits	12,823	15,591	8,313	15,157	8,535	5,866	17,545	9,688	5,013	10,746	8,748	14,196	132,221
Due to members—reserve account	74,592	528,035	73,634	[illegible]	40,799	32,226	156,951	46,537	39,587	67,612	38,854	66,742	1,264,323
Due to nonmember banks clearing acc't		25,287		390		100	5,749	7	39	2		3,761	35,335
Collection Items	12,243	32,537	[illegible]	13,769	12,831	10,895	19,945	12,900	4,209	10,962	6,105	9,403	174,492
Due to other F. R. Bk's net		36,426					1,572						
Total Gross Deposits	99,658	637,876	110,640	128,010	62,165	49,087	201,762	69,192	48,848	89,322	53,707	94,102	1,606,371
F. R. Notes in actual circulation	47,932	[illegible]	59,613	[illegible]	[illegible]	45,547	112,144	38,582	[illegible]	34,583	42,614	[illegible]	a)847,506
F. R. Bank Notes in circulation, net liability										[illegible]			8,000
All other Liabilities incl. Foreign Govern't credits	543	2,320	414	180	153		[illegible]			168			3,859
TOTAL LIABILITIES	153,6?0	914,230	175,940	[illegible]	108,691	[illegible]	322,035	111,079	90,666	135,445	99,104	132,696	2,528,365

(a) Total Reserve notes in circulation, 847,506.

(b) Difference between net amounts due from and net amounts due to other Federal Reserve Banks, 6,896: The Gold Reserve against net deposit Liabilities is 66.5%; Gold and lawful money reserve against net deposit liabilities 70.3%. Gold Reserve against Federal Reserve Notes in actual circulation, 73.8%.

(c) Bills discounted and bought; municipal warrants: 1—15 days 344,190; 16—30 days 51,889; 31—60 days 101,536; 61—90 days 75,287; over 90 days 2,015. Total 574,917.

THE NATIONAL CITY BANK OF NEW YORK

1917

Economic Conditions Governmental Finance United States Securities

NEW YORK, DECEMBER, 1917.

An Eventful Month.

THE past month has been full of events of great importance in the war and in our relations to the war. The first casualty list was received from American troops in the trenches, bringing home the reality of war as nothing else can. Conditions in Russia have become more chaotic, with the Kerensky government overthrown and the country apparently facing civil war. The disaster to the Italian armies is a serious disappointment to those who were hoping for an early peace. It will not alter the general purposes of the western Allies, but it may strengthen the position of the military party in Germany and thus prolong the war. The overwhelming attack upon Italy was made possible by the cessation of operations on the Russian front. On the western front the events of the month were favorable to the British and French troops, and the general situation was improved by a formal declaration of war against Germany on the part of Brazil. Notwithstanding the confidence that the German people may have in their military strength, there is much evidence that the commercial classes are gravely apprehensive that the antagonisms arising from the war will seriously affect the trade relations of the country when peace is restored. The longer the war is continued and the more belligerents are drawn actively into it, the more serious these after-effects will be. The interest of Germany in the recovery of its foreign trade is shown by the recent action of the Reichstag in passing an immense grant of aid to the German steamship companies to enable them to buy and build ships rapidly as soon as peace is established. Ships alone cannot command foreign trade. Every year that the war continues will make it more difficult for Germany to recover the trade position she formerly held. She cannot recover it by force. Her shipping grant will be useless unless she intends to make peace upon terms that will convince the world that her military ambitions are abandoned, and that the spread of German influence is not a menace to all other nations.

Second Liberty Loan.

The total of subscriptions to the Second Liberty Loan in each Federal Reserve District is shown below, with the percentage of over-subscription based on the quota assigned by the Treasury:

	Total Subscriptions Received	Quota	Per Cent. of Over-subscription
Boston	$ 476,950,050	$ 300,000,000	59%
New York	1,550,453,450	900,000,000	72%
Philadelphia	380,350,250	250,000,000	52%
Cleveland	486,106,800	300,000,000	62%
Richmond	201,212,500	120,000,000	68%
Atlanta	90,695,750	80,000,000	13%
Chicago	585,853,350	420,000,000	39%
St. Louis	184,280,750	120,000,000	54%
Minneapolis	140,932,650	105,000,000	34%
Kansas City	150,125,750	120,000,000	25%
Dallas	77,899,850	75,000,000	4%
San Francisco	292,671,150	210,000,000	39%
Total	$4,617,532,300	$3,000,000,000	54%

The Secretary of the Treasury accepted 50% of the over-subscription, making the actual issue $3,808,766,150. The allotment was made as follows:

SUBSCRIPTIONS.		ALLOTMENT.	
Up to and including $50,000	$2,488,469,350	100%	$2,488,469,350
Over $50,000 up to and including $100,000	359,865,900	90% but not less than $50,000 bonds	323,879,600
Over $100,000 up to and including $200,000	242,220,800	75% but not less than $90,000 bonds	181,665,800
Over $200,000 up to and including $1,000,000	756,586,700	60% but not less than $150,000 bonds	455,690,300
Over $1,000,000 up to and including $8,000,000	470,425,600	50% but not less than $600,000 bonds	235,582,300
Over $8,000,000 up to and including $30,000,000	249,963,950	41.20% but not less than $4,000,000 bonds	103,071,200
$50,000,000	50,000,000	40.8152%	20,407,600
Total subscriptions	$4,617,532,300	Total allotment	$3,808,766,150

By the terms of the loan, 2% of the subscriptions accompanied the application, 18% were to be paid November 15, 40% on December 15, and 40% on January 15. The actual payments to November 26 aggregated $2,535,617,664, or about 66%. These figures include Treasury certificates converted.

When the loan closed the Treasury had outstanding $2,320,493,000 of Treasury certificates, of which $935,197,000 fell due in November and have been redeemed. The series of $300,000,000, due December 15th, has been called for payment on December 6, and the series of $400,000,000, due December 15, is called for payment on December 11. The series of $685,296,000, due December 15, will be paid on that day.

Allowing for the redemption of all Treasury certificates issued prior to November 1st there is about $1,500,000,000 remaining of the proceds of the second loan, besides which there is a cash balance of approximately $1,800,000,000. Presumably the Treasury will want to run very strong in cash at all times, but unless disbursements increase rapidly the funds on hand should last until February. After that it should be practicable to provide funds for at least a month or two through the sale of Treasury certificates, which would carry the next bond issue into the spring. Ordinary disbursements for November, to the 26th, aggregated $454,273,363 and special disbursements, including loans of foreign governments, $435,596,813. The estimates of the Treasury are for an expenditure of over $12,000,000,000 in the year ending June 30 next on our own account and loans of $7,000,000,000 to allies. Actual expenditures for ourselves have been about $1,758,000,000, with loans of $2,241,629,750. The Treasury officials adhere closely to the estimates, and they alone are in position to know how fast expenditures can be made in the last half of the year, but with about $4,000,000,000 expended and loaned in nearly five months, it seems improbable that actual disbursements in the next seven months will reach $15,000,000,000.

Liberty Loan Bonds in the Market.

Liberty loan bonds of both issues have been marketed in considerable amounts and at lower prices than the 3½s had reached before the 4 per cents were issued. At present the former are selling around 99 and the latter around 98. The offerings come from all over the country, and are a natural result of the strenuous campaigning for subscriptions. Every locality has had a large task to raise its quota, and under the pressure of the canvass it has frequently occurred that people were constrained to subscribe for more bonds than they felt able to carry. It was a community effort, appealing to local pride as well as national patriotism, and rather than fail to do what was expected of them they subscribed, with the intention of selling part in New York at whatever loss it might be necessary to take. It is difficult to see how this situation can be avoided when it is necessary to push solicitation so hard, but by this time it is becoming pretty well understood that Wall Street does not bear all the responsibility for the market price of government bonds.

It is not at all clear that the situation would be materially different if the interest rate was higher, although as the rate on government issues is raised the selling pressure upon these will be relaxed by being extended to other investments. If the country is forced to take more bonds than it has learned how to absorb, something will be thrown on the market. Moreover, the sale of either government or other securities on the market does not relieve the situation. It is only moving capital around a circle, without creating any more of it, just as the shifting of labor from one employer to another by the offer of higher wages does not make any more labor available. It cannot be too often repeated that whether obtained directly or indirectly the funds for the war must be provided by new savings.

Industrial and Financial Coordination.

The turn of events in Europe has undoubtedly impressed upon the people of this country the necessity of preparing for a long conflict. The end is not in sight, and it will be the part of wisdom for the United States to lay its plans for participation upon a basis which can be maintained indefinitely. The full powers of the country cannot be exerted immediately, for it is only by degrees that the people can be brought to understand the part which as individuals they are required to play. They have to be educated to the war task. They have to learn that a great war, calling upon this country for eighteen or twenty billions a year, cannot be carried on by the government alone, in a purely official capacity, without interfering with the business or pleasures of the people.

It is natural for the people to go along in their accustomed ways, trying to do business as usual and live as usual, until they are shown what the government wants of them. It is for the government to coordinate the productive powers of the country and direct them into the channels where they will count for most. There is general appreciation of the fact that it is a stupendous task to raise twenty billion dollars in a year, but the public is slow in grasping the fact that it is also a stupendous task for the government to get twenty billion dollars worth of work done in a year. The problem would be immensely simplified if the public could see clearly that if the government is to take over labor and materials to this extent, individuals must curtail their demands to approximately the same extent, and that when they do this they will have the money to buy the government bonds.

This curtailment of private expenditures will be most effectively brought about by having the

government exercise its priority rights to such essentials as labor, coal, materials and transportation. If there is not coal enough to go around it is clearly proper for the government to determine what industries shall go without, and as it does so public expenditures in those lines will be automatically curbed. If steel is not available for automobiles the public perforce will not buy automobiles, and so by the control of industry private expenditures can be brought largely under control.

This authority, if exercised with discretion, need not be so disturbing to industry as at first appears likely. In England few establishments have been actually closed down; usually it has been found possible to utilize them for some kind of war work, and it is good economy to make changes and add equipment for that purpose. Moreover, it should be understood that goods which are made for the export trade, although in the luxury class, may be paying for commodities which are necessaries to us. When articles of luxury are shipped to Argentina and help pay for hides and wool, the labor upon them is in effect producing hides and wool for our own consumption. If we don't settle our exchanges with goods we must settle in gold.

Time a Necessary Factor.

In short, the end in view being to reorganize the industries of the country on a war basis, the government must take the lead and give order and system to the rearrangement. It would be demoralizing and wasteful to shut down the great automobile factories, scattering the workmen, breaking up their homes, compelling the sacrifice of property, disturbing business conditions, and destroying values. The desired result is better accomplished by changing them to the manufacture of trucks, aeroplanes and munitions. Furniture factories are being utilized in similar fashion, and so in every community there are establishments which can be converted to war business or made to serve indirectly the present needs. When they stop making things for peace trade the public will necessarily stop buying such things, and since employment will remain full more money will be free for the loans.

The industries must not be crippled; they must be changed over to war work. Time is required to do this, and while no time should be lost nothing is accomplished by working with misdirected energy. When a railroad is crowded with business to a state of congestion it loses in efficiency. Not as many cars get over the line as with traffic restricted to its capacity. This country can carry on the war indefinitely and put steadily increasing weight and efficiency into it if its operations are well-ordered. But it cannot throw millions of men upon war work except as it takes them off of other work, and it cannot pay billions into the Treasury except as it curtails expenditures in other directions. It is just as important to plan upon one side of the problem as the other, and nothing but confusion will result from going ahead without a careful coordination of efforts.

The industrial resources of this country are very great, but the ordinary supply of labor was fully employed when this country entered the war. Everything cannot be done at once; some things are of more importance than others, and should have right of way, but an attempt to drive operations too hard will inflate costs, embarrass the whole industrial situation and increase the difficulty of raising money. This country without question can raise all the money required to pay for all the work that can be done, but congestion in industry and congestion in borrowing will not promote results. It does not help to have labor attracted from one equally essential industry to another, or to have loans brought out faster than they can be absorbed.

Time is a factor in big undertakings which cannot be eliminated, and this country can afford to take the time that is necessary to work with foresight and method. Time in this war is on our side. We are not blockaded, we have access to the markets of the world, we are not in danger of running out of necessaries. If Germany can afford to have this war go five years we surely can, but we should plan to grow stronger every year. Such a policy will fill the country with confidence, not only as to ultimate military success, which nobody doubts, but as to the course of business during the war and afterward.

Increasing the Labor Supply.

Our ability to get quickly and effectively into the war depends upon our ability to release men to the armies, and at the same time turn more men upon the production of ships, aeroplanes, heavy guns, and ammunition. How can labor be found to give the increased output that will shorten the war and save lives? There is no longer any danger of unemployment, of substituting one class of labor for another, or reason for class jealousy. There is work for all.

There are three classes of labor in the country that have not been fully drawn upon. (1) The movement to employ high school boys on the farms was developed far enough last summer to show that there are further possibilities in it. (2) The movement to utilize old men, who have dropped out of active employment. In ordinary times it is difficult for men over 45 years of age who are thrown out of employment to find new places. The Employment Bureau of the Employers' Association of Chicago finds employment free of charge for men of this class. In the month of August it placed 1,303 of them in permanent places, and in the

month of September 1,600 of them. This is labor that without a special effort may be lost.

But the big, potential supply of labor, far surpassing in quality and quantity that of old men and boys, lies in the unmarried women from 20 to 40 years of age, of the class who do not ordinarily seek employment for pay. Here are several millions of alert, capable persons who in the present social atmosphere will not work for wages, who are consumers but not producers. The movement to bring these women into industry has started, but it is not progressing fast enough. It needs encouragement and organization; it needs not only the personal economic appeal but the patriotic appeal, and the same social approval and pressure that applies to the enlistment of young men in the army and navy.

A correspondent who writes to us very earnestly on this subject puts the case so well that we quote from him as follows:

A vital, healthy woman who contributes one hour a day, two days in the week to the Red Cross is not performing any adequate service to her country. If our sons can go to the front as privates our daughters can go to the offices and factories as privates.

The economic pressure that gradually brought these women to the factories of England and France, is not and will not be present in America.

I believe a Constructive Labor Program which will bring these women into industry is absolutely vital. I believe a study of this problem will bring results of practical national value many times larger and more important than the recent railroad efficiency movement.

Two factors are necessary for success in such a labor program: (1) Patriotic propaganda, which will cause women to enlist under oath in our industrial army, for duration of war, in 48 hours a week, 52 weeks in the year, jobs at the same piece rate wages as men are paid. (2) An organization for handling enlisted women. Such an organization should consist of men and women of practical, employment-bureau experience who will fit the worker to the job and the job to the worker.

I think the patriotic appeal to every woman in the United States should be: Will you personally earn money to invest in Liberty Bonds, to support the Red Cross, and to give to the Y. M. C. A.? You are not doing your best for your country when you extract the money for patriotic purposes from the men of the family. Give your *best* for your country by increasing production by filling a paid position. This is the best sign—the pay envelope that goes with the position—that the position is a necessary cog in industrial machinery. Then—use the money for two purposes: (1) To buy Liberty Bonds, to support the Red Cross, and the Y. M. C. A. (2) To contribute to one's personal expense and thus release the money of the men in the family for Liberty Bonds.

A slogan for the next Liberty Bond issue: *Every woman in the United States to buy a Liberty Bond with money she has earned.*

Let the pay envelope be a badge of honor, a badge of patriotism, showing that the women of the United States are increasing production.

Women who do enlist should have some special military ensignia or badge.

Paper Money Finance.

We are continually in receipt of letters, some of them from bankers, asking if it would not be a good plan for the government to issue several billions of paper money to pay war expenses. These correspondents suggest that it would "save interest," "increase the amount of money in circulation," "increase bank deposits," "make it easier to raise loans," etc., etc. It is strange how persistent are these ideas about the efficiency of fiat money, because there never was a trial which did not demonstrate that they are fallacies. Money in itself is an instrument of exchange, a trade facility; it is not final compensation for anything. The government wants money with which to buy war supplies and the people who sell the supplies want money to buy things. The satisfaction of all these wants depends upon production, and that depends upon the labor supply, together with efficient organization and equipment. When the industries are already operating at capacity, the output cannot be increased by increasing the supply of money. Any further gains must come by improvements in organization, equipment or methods, and by shifting labor from non-essentials to essentials. It befogs and confuses the whole subject to talk of relieving such a situation by printing money. More money or purchasing power in any form can only increase the competition for labor and materials, raising costs in terms of money and debt without making any more labor or materials available.

One of our correspondents expresses the opinion that an additional billion dollars of legal tenders could be readily floated on the credit of the government and on present gold reserves. But what would one billion amount to in expenditures of twenty billions a year? It would be only a beginning, and once a beginning was made there would be no logical stopping place. Arguments for each additional billion would be as strong as for the first. The country would be launched on a sea of paper money and all attempts to maintain parity with gold would have to be abandoned. That would put our three billions of gold money practically out of use and this would make more irredeemable paper necessary. The more the latter depreciated the greater the volume would have to be, in order to make the government purchases and to carry on the business of the country. The cost of the war would be enormously increased, as the cost of our civil war was increased by the issue of the greenbacks.

Not Money But Savings Wanted.

This country has plenty of mere facilities for making payments. Industry is not halting for want of means to make payments; it is limited on all sides by scarcity of men and materials. As a matter of fact we make payments with bank cheques rather than money. The correct method of financing the war is by having the

individual citizens accumulate bank credit, and transfer this credit to the government, the latter in turn transferring it in payment of its purchases. The transfers are simple enough, the problem is in getting the individual citizens to understand that they must create by savings the means to supply the government's needs. We must create the purchasing power, and transfer it to the government, abstaining from its use ourselves.

There is no royal way by which a government can finance itself. This paper money theory assumes that the government can create the purchasing power it needs, without the help of the people, and allowing the people to go on using purchasing power for their private purposes, as usual. But as we have seen, an attempt to use such an amount of purchasing power results in a demand for labor and materials greater than can be supplied. Whether the demand takes form in paper money or bank credit the effect is to raise all costs and depreciate the purchasing medium. Borrowing to lend to the government without cutting down our own expenditures, is like giving the government an order upon a certain limited stock of commodities, and then withdrawing the commodities for our own consumption.

Issues of irredeemable paper money constitute a forced loan upon the public, without interest, and are never resorted to except as an expedient when the regular methods of raising money have failed.

Apropos of paper money the Russian Official Bulletin of recent date has shown how the authority of the Russian State Bank to issue notes has been increased from time to time. Prior to July 27, 1914, it was limited to an issue of 300,000,000 rubles without gold cover. Since then the limit has been raised as follows:

	Rubles
July 27th, 1914, up to	1,500,000,000
March 17th, 1915, up to	2,500,000,000
August 22nd, 1915, up to	3,500,000,000
August 29th, 1916, up to	5,500,000,000
December 27th, 1916, up to	6,500,000,000
March 4th, 1917, up to	8,500,000,000
May 15th, 1917, up to	10,500,000,000
July 11th, 1917, up to	12,500,000,000

Conscripting Capital.

A good deal is said about the "conscription" of capital, and it is well to have a clear idea of what is meant, and of just what it is practicable for the government to do in this respect. The phrase is often used as though the authority of the government to take property as it takes men was disputed, and with the implication that capital is spared through influence or favoritism.

This idea is due largely to a mistaken conception of capital, and of the service which capital renders whether in public or private hands. The capital of the country does not exist in forms that permit of its being seized and turned into the treasury. Capital exists for the most part in productive property, i. e., in farms, mills, railways, machinery, and all the equipment for carrying on industry. The greatest service to the country from these properties is obtained by having them operated with the highest possible efficiency. The government doesn't want property in these forms, but the products that come from them. It would be a great boon to have production increased and a disaster to have it generally decreased.

The seizure, or conscription, of these properties in the sense of taking them out of the hands of the present owners is utterly impracticable. The government could not assume their management. It has no staff competent to operate them. If it took them over it could do no better than arrange with the present owners to go on operating them. It would have to make terms which would enable the management to satisfy wage-earners, provide working capital to buy materials and supplies, and make repairs, replacements, improvements and enlargements, as these were necessary to keep the industries up to the highest efficiency.

In short the "conscription of capital," when reduced to practical terms means the fixing by governmental authority of the terms under which private property and private managerial ability will be devoted to public work. This is being generally done. In some cases fixed prices are agreed upon, in others the government pays cost, plus a percentage for the services of plant and organization. In some instances the latter is the only practicable plan, but its weaknesses are well known. Experience has always shown that as a general rule the best results are obtainable under the private management of industry. It gives an incentive to individual effort, stimulates efficiency and promotes progress.

The seizure of properties by the government would not put money in the Treasury, or increase the supply of what the government wants. A levy of taxes so heavy that it could not be paid out of current earnings would reduce the working capital of industries at a time when they need it all, compel them to borrow while impairing their credit, and in many instances force the sale of properties on a market without buyers. In short, it would bring ruin and panic upon the country, demoralize industry when the country's salvation depends upon the industrial output, and destroy values at a time when of all times it is important to sustain confidence. It would be literally killing the goose that lays golden eggs. Nothing can take the place of men in the armies, and rich and poor alike are conscripted for that service, but capital in the form of productive property must be used as it exists and must be

handled by people who know how to produce results from it. "Conscription" cannot be applied to it in any other sense than as applied to current earnings, and enough of current earnings must be left to finance the business adequately; otherwise efficiency will decline, production will fall off, the ability to pay taxes will diminish, and the war power of the country will be lowered.

Private Capital Does Public Service.

The fundamental error of those who call for the "conscription of capital" is in not comprehending that private capital engaged in production for the government or for the public market is rendering the same service as though it was publicly owned, and probably rendering it more economically. The assumption that the government could take over industries on a large scale, even by confiscation, and supply itself with products more cheaply than it can buy them of privately owned industries is purely an assumption. The record of government operations does not justify it.

A speaker for the Socialist party in the recent New York city campaign is reported as follows:

> "'You capitalists, your capitalistic government, that comes into our homes and conscripts the lives of our sons, so shall you conscript wealth.' We would summon Mr. Carnegie and say to him, 'Andy, how much do you require to live? Not on the east side, not in the Bronx, but just where you are, on Fifth Avenue? We would not take from you one lump of sugar, but how much, $15,000 or $20,000 or $25,000, do you require yearly to keep your antiquated soul in your capitalistic body?' Then we would take the rest of his income. That is not being done, and that is why we Socialists do not buy war bonds."

This shows the misconception of economic facts which is responsible for most of the agitation. The orator proposes to allow Mr. Carnegie to continue living as at present, but to confiscate the remainder of his income for public purposes—as though all the remainder was not used for public purposes now! The only portion of any person's income which is devoted to himself and withdrawn from the common fund is that portion which is consumed for his own support and pleasure. The real grievance of society against the rich is not on account of what they save and invest productively, but on account of what they spend needlessly and extravagantly upon themselves. What they put into business is used to increase production, to multiply the supply of things of common consumption, and it is a fair presumption that it is used more efficiently, and with better results to the public, by the leaders of industry than it would be by a government officered by campaign orators.

It is true that economies are effected and gains made by bringing competing industries into harmonious relations during the war under government supervision, but this is something far from government management. The industries are still in the hands of experienced managers and scores of the ablest business men in the country are giving their time to the government service in handling the situation. There is co-operation and assistance by the public in all that the government is doing. What Mr. Hoover and his assistants are able to do in dealing with the food situation, and what the railway officials working together are able to do with the railways, is no evidence as to the results of permanent government administration in the industries.

Depression in the Stock Market.

The stock market has had too much selling for the demand since last June and the decline became precipitate with the bad war news from Italy and Russia, reaching for many stocks the lowest figures since the outbreak of the war. Of late the market has rallied and been well sustained.

In some quarters the ups and downs of the stock market are regarded with indifference, as concerning only a group of speculators, but they are of more importance than that. A decided trend of the market is significant of public opinion, and it is not encouraging or helpful at a time when great financial burdens must be borne to have the market from day to day reflecting gloom and pessimism. Every one is to some extent influenced by suggestion, and it is not inspiriting to the owners of property to see interests corresponding to their own sell lower and lower, even though they have no intention of selling their own holdings. These are unusual times, people are easily unsettled in their opinions, and in a long, wearing contest the psychological factor is the decisive one.

The decline has been the result of various influences. Ordinarily there is a constant flow of new capital into the market for investment, but the government loans have taken this up so closely that free buying power has been greatly reduced, while at the same time there have been offerings by people wishing to convert their capital into the loans. In short, selling pressure was increased and buying power was weakened. The news from Italy and Russia indicated a long war, and with visions of repeated bond issues and higher taxes the buying side of the market was attractive to few.

The taxation already adopted, with the talk of higher levies in the future, has involved the situation in uncertainty. The course of the market shows clearly that investors do not rate the war profits as high as some of the legislators do. The latter look upon them as cash in hand, but in fact they have been largely reinvested in extensions and improvements, or are represented by larger inventories, and their final value is yet to be determined. The taxes

are a definite liability requiring in many instances that dividends be suspended or money borrowed. Market opinion is discounting these undivided profits and taking account of the uncertainties which will surround business in the future. These factors are entitled to the consideration of legislators as well.

The fact is that despite great activity in industry, a good showing of earnings and rising values for everything else, ownership in the chief industrial and transportation properties of the country is not valued on the market as high as a year ago. This situation is evidently due to market conditions and to lack of confidence in the future, rather than to anything that has actually occurred affecting these properties. Apprehensions as to the future are doubtless exaggerated. The countries of Europe have been in the war three years, but their essential industries are prosperous. The stock market in London was less affected by the adverse news from Russia and Italy than the market in New York. Germany goes on raising loan after loan under conditions far more difficult than any we are likely to experience.

The productive power of the United States is increasing every day, and this is the vital consideration affecting the future. The inducements to install labor-saving methods and to develop scientific processes in industry were never so great and our industrial progress was never so rapid as now. The country is working under tremendous stimulus, and while much of the effort does not count for the present accumulation of wealth, it is developing new powers which will remain when the war wastes are over. Nothing is worth so much to a country as an increase in the productive capacity of the people themselves. The lessons in thrift, in giving as well as in saving, and in community organization, will make us a more efficient and therefore more prosperous people. The country is not going backward by reason of the war. Its people and its industries will be fully employed, under remunerative conditions, and values will find their level accordingly. A stock market boom which would absorb capital is undesirable, but on the other hand there is no occasion for pessimism about the future of American industry.

Financial Conditions.

The money market has relaxed somewhat since the November 15th payment on the government loan was made. As about 85 per cent. of the allotment for the New York district was paid in full that factor is well out of the way, and the situation looks clear for the next few months, except as the transfer of large sums may cause temporary stringency. Offerings of commercial paper on the market are light, makers in recent months having resorted to the banks where they have established lines of credit. Time loans on collateral are unchanged at 5½ to 6 per cent. The country has gone through a period of enormous transactions with remarkable ease. The regular trade of the country has been fully accommodated, and although the stock market has been depressed it has not been because money was not available. There have been ample reserves of credit at all times.

Credit expansion has continued and although it is not excessive as compared with the resources of the banking system, it is the part of wisdom to take careful notice of the effect of the government's borrowing upon the banking situation. Temporary borrowing of the banks for the government loans is undoubtedly necessary, but the country should be brought face to face with the task of paying up as the war proceeds. The loans of the New York Clearing House banks were $3,756,000,000 on August 4th and $4,756,000,000 on November 17th, but declined to $4,575,000,000 on November 24th. The total earning assets of the twelve Federal reserve banks on August 3rd were $374,266,000 and on November 23rd they were $979,141,000. This period covered the season when bank loans always go up, but the expansion was due in the main to the war financing. These figures should be reduced before another loan is brought out.

The New York district has paid up $950,000,000 of the $1,163,000,000 allotted to it, and the rest of the country drew on New York balances freely in making payments. Arrangements were made by which in some instances New York funds were deposited to the credit of the Treasury in the Federal reserve bank of New York on account of subscriptions in other districts. Although this procedure deprived the reserve banks of other districts of deposits accredited to their districts the funds were actually in New York, and a double transfer was thereby avoided. It is highly desirable in handling these immense sums that book transfers shall be used wherever possible, and the bulk of the government's disbursements are made here.

The abstract of the reports of national banks for their condition on September 11, 1917, prepared by the Comptroller of the Currency, gives the first showing of reserve conditions since the new provisions of law went into effect. The figures show that central reserve banks had legal reserves averaging 14.04%, against 13% required, reserve city banks held 10.33%, against 10% required, and country banks held 7.39%, against 7% required. Besides these reserves in the Federal reserve banks, they held $493,609,000 cash in vault, and the net amount due from other national banks was $1,292,000,000. Country banks appear to be carrying about as much in cash and with their city correspondents as before. The increase in their deposits with the reserve banks from June 20 to September 11, was from 5.79% to 7.39%.

The principal items in the aggregate statement for all national banks on September 12, 1915, September 2, 1916 and September 11, 1917, compare as follows:

	1915	1916	1917
Loans & Disc.	$6,756,680,000	$7,859,837,000	$9,055,248,000
United States obligations..	781,729,000	729,777,000	1,158,982,000
Other bonds ..	1,219,214,000	1,624,627,000	1,863,621,000
Due from banks and bankers.	1,724,621,000	2,247,967,000	2,806,414,000
Cash in vault.	842,709,000	768,123,000	493,609,000
Div. deposits..	5,426,610,000	6,708,883,000	679,370
Bills payable and redisc...	105,719,000	91,893,000	285,104,000

The decline in cash is due to the transfer of reserves to the Federal reserve banks, and the increase in bills payable and rediscounts to increasing use of the Federal reserve banks.

In order to facilitate the payment of income and excess profits taxes the Secretary of the Treasury has announced an issue of Treasury certificates bearing 4 per cent. interest which will mature on June 25, 1918. These certificates will be receivable at or before maturity by revenue collectors in payment of the above taxes.

In the November Bulletin we referred to reports of an incipient land boom in some sections of the country, as a result of high prices for farm products. This paragraph has brought considerable correspondence, which shows that there is no speculative movement in lands worthy of mention. The prevailing sentiment in all lines is one of caution, and where lands are changing hands it is for immediate possession and use.

War Savings Stamps.

The organization for the sale of the War Savings Stamps authorized by Congress is now completed, except as to some local details, and the campaign to sell $2,000,000,000 has begun. The stamps are in two denominations, 25 cents and $5. A Thrift Card is furnished, which has spaces for 16 stamps, and when these spaces are filled the card may be exchanged, with the payment of odd cents, for a $5 stamp.

The $5 stamps are to be attached to a folder, known as a War Savings Certificate, which has blank spaces for 20 stamps. If these are all filled between December 1, 1917, and January 31, 1918, the cost to the purchaser will be $82.40, and on January 1, 1923, the Government will pay the owner of the certificate $100—a net profit to the holder of $17.60. This is based on an interest of 4% compounded quarterly. The amount of War-Savings Stamps sold to any one person at any one time shall not exceed $100 and no person may hold such stamps to an aggregate amount exceeding $1,000.

The stamps are redeemable at post offices at any time at a lower rate of interest. The full particulars of the plan are now available in printed matter, and need not be detailed here.

The plan of distribution has been worked out to avoid concentration at Washington, and secure the greatest possible degree of local interest and responsibility, together with proper co-ordination and supervision. There will be six federal directors, who will give their entire time to the work, each of whom will have two Federal Reserve Bank Districts in his charge. Each state will have a State Director, from whom the organization will reach down into the counties and smaller communities. These State Directors are men of the highest business standing, selected for their known ability for a task of this kind, and will give their entire time to the work.

The Railway Problem.

The demands of the trainmen for more pay are just in time to be passed up to the government authorities with the other features of the railway situation. The railway officials have advised the President that they will be guided by his judgment in the matter and the officers of the brotherhoods are understood to have taken practically the same attitude. This question would seem therefore to be reduced to a determination of how much more wages the men shall receive and what compensatory rate increases the railways shall receive.

The railway problem, however, is much larger than a question of wages or even of revenues. Above all else it is a question of economical and efficient transportation service, and the necessities of the country are requiring that treatment of the subject shall be undertaken in a large way. The railroads have been developed by private enterprise and private capital, and on the whole it has been a wonderful development; but in recent years it has not kept up to the growth of the country. For the last ten years operating costs have tended to increase faster than earnings, and railway investments have been less in favor.

Such capital as the railways have raised in the last ten years has been procured mainly by borrowing, but this makes the position of the shareholders more precarious and cannot be continued indefinitely without affecting the position of the bondholders unfavorably. In every other business it is considered necessary to good credit that there shall be a proper relationship between borrowed capital and proprietor's capital, and if this is not maintained the ability to borrow is curtailed. Loans upon real estate are commonly restricted to about one-half the value of the property, and the railroads to be in sound credit and able to borrow at favorable rates, should be able from time to time to sell their stock to the public in such amounts as to keep proprietor's capital approximately equal to borrowed capital. In order to do this, however, there must be a sufficient margin of net earnings above dividend requirements to give assurance that dividends

will be maintained. Such surplus earnings when returned to the properties are not lost to the public, for they take the place of increased capitalization upon which dividends or interest would have to be paid.

In brief, the situation in the last ten years has not been such as to attract capital to the railways in the amounts required to enable the companies to plan for the future in an adequate manner. They have borrowed large sums for immediate needs, but traffic grows very fast in this country, and to make proper provision for it, and do so economically, expenditures should be made in advance of immediate needs. Such expenditures cannot be made unless present earnings show a reasonable surplus above current requirements. The upshot is that in the face of a great emergency the railway facilities of the country are not equal to the demands upon them. Moreover, with the government taking all the capital in sight, and with construction and operating costs mounting higher and higher, the outlook for an adequate program of development in the future is not encouraging.

Co-ordination Instead of Competition.

No matter what mistakes have been made in the past, or who is most to blame for them, it is time now for everybody to look at the country's transportation problem with large vision. What men do under the pressure of an emergency by common consent often shows the way to permanent reforms. The Federal reserve banking organization has followed and developed the general plan of Clearing House co-operation—which the bankers hurriedly conceived and adopted in the face of panic. And so upon the entrance of this country into war, the officials of the leading railways, realizing the absolute necessity of getting more service out of the railways than they were capable of giving if operated independently, turned the management of all of them over to a central board with full powers to operate them as one system. That idea has been developed until the competing interests of the individual companies in current traffic has been practically lost sight of.

This is revolutionary, not only from the standpoint of the railways but from the standpoint of the public. It has been the theory of all our legislation that the railways must be made to compete, but when we face the necessity for the highest efficiency it is found that they must work together. Opinions change rapidly when there are no alternatives. Congress will doubtless be asked this winter to legalize the co-operative methods which have been put into effect, at least for the period of the war, but the gains which are demonstrated by a closer integration of the transportation service should never be abandoned.

Constructive Program Wanted.

The country needs a broad constructive program for the transportation service, and all parties at interest should co-operate in its development. The amount of new work which can be done in war time is limited, but nothing could give assurance of general prosperity after the war like a plan for railway development. The plan should begin at the terminals, which is the point of weakness now, and make ample provision for the expansion of traffic and the accommodation of all roads. It should include docks and harbor improvements, and the equipment and connections necessary to utilize and correlate the inland waterways with the railway system. The old hostility of the railways to the waterways should cease, and their facilities should be linked up. The rivalries of rail systems should be subordinated to the general purpose of affording the best facilities to the public in the most economical manner. It is probable that in some cases the interests of the public would be served by an amalgamation of railway systems, by which weak lines, which standing alone are unable to compete in character of service with strong rivals, would be taken over by the latter. In this manner the credit and earning power of the strong lines would be used to equalize service at reasonable rates, to all sections. The difficulties of such a policy would be very much less now than in the past because of the low market values which have ruled for railway shares in recent years. The owners of railway shares are more interested in having values stabilized and moderate earnings assured than in contending for any monopoly values which favorable location or superior terminals have given them.

The effect upon the business situation of an extensive program of construction work to follow the war is a consideration not to be valued lightly. A state of hesitation and depression in the transition period would cost the country enough to pay for a vast amount of useful work.

In order to give the element of certainty required for such a comprehensive plan, in the present state of railway credit, and to obtain the desired psychological effect in the business world, it would be necessary to have the co-operation of the government, possibly to the extent of a grant of credit. The government, having control of the charges, would be safe in giving such assistance, and the economies effected would provide the income for interest and a sinking fund to retire the securities that were issued. It would be essential, however, to the success of the policy that the owners of railway shares should be assured that new obligations ahead of the stock would not be to the detriment of the latter.

Government Ownership.

The objection to a proposal for government assistance to the roads is that in some quarters it will stimulate the agitation for government ownership and management. It will be said that if the government is to aid the roads it should own them, but that does not necessarily follow. It is not suggested that the government should aid the companies for the sake of their shareholders, but because the railway problem has become national in its scope and interest, and because the government, by its exercise of control over charges, is an essential factor in it. The attitude of the government affects the ability of the companies to finance themselves on the scale required.

The people who advocate government ownership do so of course in the belief that transportation costs to the public would be reduced, but such a result would be contrary to all experience in governmental management. Furthermore, and most important of all, it overlooks the value of individual ownership in stimulating enterprise and improvement in the development of the transportation system. There is opportunity for initiative and invention in railway operations as elsewhere. Changes are constantly being made. They have been revolutionary in this country in the last twenty years. The improvement of locomotives in the last five years has been remarkable. This progress is stimulated by the efforts of the companies to reduce their expenses and save money to the stockholders, and it is a most significant fact that the privately owned railways of the world lead the government-owned railways in the adoption of such improvements.

Germany affords an instructive comparison in the efficiency of state and private management. The German people have shown great enterprise and efficiency in their private industries, but not in the conduct of the state railways. Mr. W. M. Acworth, an English authority upon railways, who was on this side in the early part of the year, serving as a member of the special Canadian Commission upon railways, was invited to appear before the Senate Committee on Inter State Commerce at Washington, which was considering the railway question. He referred incidentally to the Prussian railway system as follows:

"While American companies have revolutionized their equipment and methods of operation, Prussia has clung to old equipment and old methods. This is typical. In all the history of railway development it has been the private companies that have led the way, the State systems that have brought up the rear. Railroading is a progressive science. New ideas lead to new inventions, to new plant and methods. This means the spending of much new capital. The state official mistrusts ideas, pours cold water on new inventions and grudges new expenditure. In practical operation German railway officials have taught the railway world nothing. It would be difficult to point to a single important invention or improvement, the introduction of which the world owes to a state railway."

The argument for government ownership is a purely theoretical one. It assumes that the roads will be operated by the government as efficiently as under private management, but the conditions are against that result. There is a mystery about the powers of the government which is misleading to many people. The government has the power that goes with authority, but it does not have the ability to operate a farm, a factory or a railroad more economically than private owners. On the contrary, the conditions under which public business must be done place government operations at a disadvantage. There is a division of authority and responsibility, and a want of continuity in policies, which prevent the best results. The final authority is with Congress, a constantly changing and cumbersome body, and everybody below Congress works under limitations. The conservation policy which keeps our great resources in water-power tied up, illustrates how confusion of councils paralyzes public administration. The highest officials serve short terms, and subordinates hold for life, with promotions under the general rule of seniority. Precedent is of enormous importance, because the official who follows it is protected from criticism, while one who introduces innovations assumes the risks of failure without the prospects of personal reward.

In short, the qualifications of the government are much better for supervision and criticism than for initiative and management. The government's oversight and authority are needed in dealing with the railway situation, but it is not necessary for the government to assume all the functions of a proprietor. The most economical and satisfactory results will be gained by combining public supervision and co-operation with the flexibility and efficiency that are best obtained under private administration.

General Business Conditions.

The fact that the railways are handling more traffic and that coal consumption is increasing shows that industry is still expanding, notwithstanding the difficulties that hamper it. Interest centers in the ability of the railways to move the business offered to them. For two years the industries have been at work enlarging their capacity; but the physical capacity of the railways has been but slightly increased in that time. By improving the operating organization and pooling equipment the roads have increased their efficiency, but their track and terminal capacity is limited and they are short of locomotives and cars. The locomotive builders are largely occupied with orders for Russia and France, and the car shops are operating at only about one-half of their capacity, for want, it is said, of steel. In the present situation, however, this is little encouragement for any of the individual companies to order cars. A company has no control over its own cars and does not

have any more for use because it owns a great many. The remedy is clearly to be found in a central supply of cars owned either by an independent corporation in which the railways are stockholders or by the government. Hnudreds of new coal mines have been opened, but few of the mines are operating to capacity—for want of cars. The shortage of coal cuts down the production of many of the industries, and the shortage of coke, which is acute for the same reason, is seriously limiting the production of pig iron. The demand for iron would take several times the output of the furnaces, which again shows how the vital capacities of the country are being restricted. The industries cannot expand beyond the limits fixed by the supply of pig iron, coal and railway service. If government funds can be used to remedy this situation it will be the most effective use to which at this time they can be applied. Here is the narrow place in the road, and if it can be widened the energies of the country will produce immensely greater results.

Branches in South America.

A branch of this Bank was opened November at Caroccos, Venezuela. This is the eighth branch in South America.

The American International Corporation has taken over the old house of G. Amsinck & Co., New York, founded in 1856, commission traders, operating mainly in Latin America. The firm is a leading one in its line, having an annual turnover of about $30,000,000 and about 4,000 correspondents. The business has been acquired as in line with the plans of the National City Bank and American International Corporation for the expansion of American trade.

STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS NOVEMBER 23, 1917.

(In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco	Total
Gold coin and certificates in vault	[illegible]	333,776	21,106	[illegible]	6,144	5,551	[illegible]	5,362	14,234	[illegible]	12,531	32,682	530,045
Gold Settlement Fund	6,016	28,666	40,511	[illegible]	40,417	13,545	72,007	25,640	15,894	30,443	27,504	35,529	386,662
Gold with foreign agencies	3,675	18,112	3,675	4,725	1,837	1,575	7,350	2,100	2,100	2,625	1,838	[illegible]	52,500
Total gold held by banks	41,389	[illegible]	[illegible]	[illegible]	[illegible]	20,671	113,257	33,102	32,228	37,056	41,873	71,099	969,207
Gold with Federal Reserve Agents	30,461	[illegible]	50,644	48,121	31,940	43,851	81,692	38,847	29,325	30,186	29,039	35,784	623,948
Gold Redemption Fund	1,000	5,000	[illegible]	31	[illegible]	573	462	754	595	514	1,035	41	11,549
Total gold reserves	72,850	[illegible]	116,886	132,440	[illegible]	[illegible]	195,411	72,703	62,148	67,756	71,947	106,924	1,604,704
Legal tender notes, Silver, etc.	5,362	[illegible]	1,023	679	[illegible]	305	2,162	614	310	37	528	[illegible]	54,058
Total Reserves	78,212	[illegible]	117,909	133,119	81,090	[illegible]	197,573	73,317	62,458	67,793	72,475	107,146	1,658,762
Bills discounted, Members	37,574	351,111	22,914	30,149	16,623	[illegible]	97,805	17,334	10,262	33,122	8,375	18,080	656,002
Bills bought in open mark't	[illegible]	50,340	25,604	[illegible]	12,937	4,727	5,949	7,786	9,014	4,536	10,818	16,848	209,905
Total bills on hand	[illegible]	401,451	[illegible]	61,231	29,560	17,380	103,754	25,120	19,306	37,658	19,193	34,928	(c) 865,907
U. S. Governm't long-term securities	[illegible]	2,180	[illegible]	8,053	1,311	[illegible]	21,007	2,233	1,860	8,849	3,972	2,440	53,962
U. S. Governm't short-term securities	2,456	26,122	[illegible]	4,824	2,364	5,383	3,779	1,693	1,810	2,222	2,654	1,685	57,850
Municipal Warrants		1,017	44	12		278			25		46		1,422
Total Earning Assets	70,874	[illegible]	51,970	74,120	33,235	23,938	128,540	29,046	23,001	48,729	25,865	39,053	979,141
Due fr. other F. R. Bks. net		9,514		2,831		171	10,109		2,601	[illegible]		896	b 11,872
Uncollected Items	16,222	60,973	30,626	21,706	20,613	17,121	44,022	16,898	11,690	24,410	17,277	20,957	302,525
Total deduction from gross deposits	16,222	70,487	[illegible]	24,537	20,613	17,292	54,131	[illegible]	14,291	33,099	17,277	21,853	314,397
5% redemption fund against F. R. bank notes										400	137		537
All other resources					35	109		1,470	930		599	109	3,293
TOTAL RESOURCES	165,308	1,103,527	200,515	231,776	134,973	[illegible]	380,244	120,731	100,730	150,021	116,353	168,161	2,956,130
LIABILITIES													
Capital Paid in	5,701	18,028	5,590	6,751	3,585	2,665	[illegible]	3,444	2,581	3,372	2,783	4,033	67,136
Government Deposits	7,292	31,292	4,227	[illegible]	12,220	3,196	40,674	1,705	7,132	12,753	11,048	36,309	196,411
Due to members reserve account	78,715	[illegible]	[illegible]	104,785	42,257	34,673	159,931	46,682	41,271	[illegible]	46,395	62,330	1,426,648
Due to nonmember banks clearing acc't		10,973		[illegible]		485	[illegible]	[illegible]	36	2		4,251	22,291
Collection Items	14,311	52,094	27,285	16,815	16,469	9,137	27,807	13,592	4,614	12,162	6,915	13,968	215,169
Due to other F. R. Bk's net	1,026		7,093		9,063			3,894			1,803		
Total Gross Deposits	101,404	751,456	121,228	150,241	[illegible]	47,491	234,396	66,355	53,053	94,806	66,161	116,858	1,860,519
F. R. Notes in actual circulation	57,604	331,167	73,151	74,687	51,379	56,574	137,024	50,932	45,096	43,599	47,409	47,270	a 1,015,892
F. R. Bank Notes in circulation, net liability										8,000			8,000
All other Liabilities incl. Foreign Govern't credits	599	2,876	546	97			221			244			4,580
TOTAL LIABILITIES	165,308	1,103,527	200,515	231,776	134,973	106,730	380,244	120,731	100,730	150,021	116,353	168,161	2,956,130

(a) Total Reserve notes in circulation, 1,015,892.
(b) Difference between net amounts due from and net amounts due to other Federal Reserve Banks, 11,872: The Gold Reserve against net deposit Liabilities is [illegible]; Gold and lawful money reserve against net deposit liabilities 66.1%. Gold Reserve against Federal Reserve Notes in actual circulation, 62.6%.
(c) Bills discounted and bought; municipal warrants: 1—15 days 527,138; 16—30 days 66,300; 31—60 days 147,035; 61—90 days 121,132; over 90 days 5,724. Total 867,329.

Economic Conditions
Governmental Finance
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Economic Conditions
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New York, January, 1918.

The War Situation.

THE war situation has shown little change during the past month. The Italian front has been reinforced by British and French troops, and although the German and Austrian armies have gained some ground the advantage seems not to be significant. On the western front no extended effort has been made by either side, but the Germans are understood to have strengthened their forces from the Russian front and it has been assumed that they are getting ready for a supreme attempt to break through. In Asia Minor the British troops have driven the Turks out of Jerusalem. Negotiations for peace have continued between the Bolsheviki party in Russia and the German authorities and are still pending. On the face of the declarations exchanged by these parties, favorable to peace without annexations or indemnities, they would seem to be not an impossible distance from the conditions laid down by the Prime Minister of England in a recent speech. The latter called for the restoration of territory conquered by German arms, reparation for damage done, and proposed that the disposition of the German colonies and of the territory within the war zone in Asia be determined by the Peace Congress, with the exception of Palestine and Armenia, which the Prime Minister said would not be returned to the Turk. These are definite terms, and go far enough to show that the Allies are not bent upon the destruction of the German nation. President Wilson has made clear at every step that this country has no selfish purpose to serve. It is demanding neither territory nor indemnity. The essential purposes with it are to vindicate the rights of its citizens under long recognized principles of international law, to re-establish those principles of public right in the life of the world, and to restore peace upon a just and permanent basis. With the Allies the chief consideration undoubtedly is to secure guarantees that the world shall be made safe in the future from the aggressive policies of the German military autocracy.

The War Grip Tightening.

The grip of war upon the industries of the country has become more evident in the past month, the most pronounced demonstration being the action of the President in taking the railways completely under the government's control. The railways are the most important single factor in the industrial situation; every other industry has complained that it was limited by inadequate transportation service, and while this was the case it has seemed useless to apply the spur in other quarters. The advent of severe winter weather, which seriously reduces the capacity of the roads, brought matters to a crisis, and determined the President upon the course which he has taken.

Next to railway service, coal is the most vital necessity and the supply of this is so dependent upon transportation from day to day that when the latter fails it is difficult to say to what extent production is insufficient. The fact is that according to the figures compiled from month to month by the Geological survey the production of bituminous coal this year will be approximately 50,000,000 tons greater than in 1916, when it exceeded all previous records. There are practically no stocks outside of consumers' hands, and the railroads have delivered this increased production. In view of the fact that the industries were working at full speed throughout 1916 it seems remarkable that the situation should be so much more acute at this time than a year ago. The draft for the army has reduced the labor supply, and the output of the iron furnaces, which is basic material for many industries and usually accepted as significant of general conditions, has been slightly less in 1917 than in 1916. Nevertheless, there is a serious shortage of coal, estimated by Director Garfield at 50,000,000 tons, and notwithstanding the great importance of getting full service out of ships, hundreds of ships have been delayed in Atlantic ports, waiting for coal.

It is probable that over 75 per cent. of the iron and steel production is directly or indirectly for war purposes, and perhaps 85 or 90 per cent. of the copper. Lead production increased rapidly under the stimulus of high prices, and the general demand is now supplied

at about 6¼ cents per pound, New York. About 45 per cent. of the woolen and worsted spindles are running on government contracts. Gradually the war industries are encroaching upon other activities, attracting men, getting command of materials and obtaining a preference for such essentials as coal and railway service. The government has not gone to the point of naming non-essential industries, but has adopted the policy of converting such establishments, where practicable, to war work. This deals with all phases of the complicated problem in the most satisfactory manner. If an industry whose product may be classed as a luxury, or at least not in the class of war-time necessities, receives a government contract, the supply of the luxury is automatically shut off, but the employment of labor and disbursement of wages goes on as before. The new work is taken to the workmen, instead of their being obliged to hunt for it, possibly at a distance from their homes. The organization remains practically intact instead of being broken up. Normal conditions in the community remain unchanged, and the general policy is so clearly to the economic advantage of the country that the government can well afford, even at some pains, to follow it, rather than let contracts which involve the creation of new industries from the ground up.

The War Task.

We assume that few people are so unreflecting as to believe that business can really go on "as usual" when the country is engaged in a great war, which takes millions of men from the ranks of labor and requires millions more to keep the armies supplied with equipment and subsistence.

The idea that the person who spends $100 or $1 needlessly, instead of lending it to the government, thereby enables some other person to lend it to the government, and so helps more than by lending it himself, is made absurd by the mere statement. It is evident that the more the original sum is passed around, and the greater the number of people who must be paid for their services out of it, the smaller will be the remainder which can possibly reach the Treasury. The sum cannot possibly increase and is constantly diminished.

We take it that most of those who have shown concern about the effects of the plea for economy have been pleading for time for business to readjust itself from peace conditions to war conditions, in order that a period of disorganization and confusion might not intervene. In all discussion of the subject we have recognized this plea and emphasized the desirability of having the government assume the task of reorganizing the industries. But we have also recognized that with employment complete, wages high and general prosperity throughout the country, trade was bound to be in heavy volume, despite all that might be said for economy. Such has been the case, and probably will continue to be. The impulse to spend and habit of spending do not yield readily to mere economic argument.

However, now that the holiday trade season is past, and the critical state of the industrial situation and its relation to our war preparations is more apparent than ever, perhaps there will be more general recognition of the sober truth that every day lost in organizing the industrial forces of this country behind the army means peril to the allied cause, delay in getting our army into effective action, and prolongation of the war with all that means in loss of life and treasure.

The Congestion of Industry.

The testimony before the Senate Committee shows that the delay in securing clothing for the army has been due to difficulty in obtaining materials, and the consumptive demands of the public have been the chief factor in that. The congestion upon the railways is due to the enormous business the country is doing. The country is literally enjoying an extraordinary state of prosperity. The farmers have gathered a crop estimated by the Department of Agriculture to be worth $21,000,000,000, which is double the value of any crop ever raised prior to the war. Disbursements for wages are far above those of any previous time, the numbers of workers employed being greater, the time more nearly full and the wages higher. The expenditure of these widely distributed sums creates a vast volume of trade and traffic, and has put a burden upon the railways which in connection with the war business has been more than they could bear. An attempt has been made to give the government certain prior rights, but it is impracticable to shut off private business generally and the activity of trade everywhere shows that it has not been shut off. It has been going on, it has been taking up room on the railways, and played a part in cutting down the production of iron and steel to about 75 per cent. of the capacity of the works. This is direct interference with the work of preparing the country for war.

The demands created by the war plus ordinary consumption are far beyond the industrial capacity of the country, but owing to the unusual flow of money in circulation, passing through many hands, private consumption in many lines is probably greater than ever before. It would be so naturally, and will be so unless restricted either arbitrarily or voluntarily. But if it is greater than usual how is the government to get its work done? The appropriations authorized for expenditure this year foot up $19,000,000,000, which, as we have previously pointed out, compares with $24,000,-

000,000 as the total value of the output of all manufacturing establishments in this country, according to census figures, for the year 1914. These figures are more significant when it is known that they include the products of the great meat packing industry, and other establishments where the manufacturing process is comparatively slight. All-inclusive the value of the total product in 1914 was $24,000,000,000. This sheds some light upon the industrial significance of the government's plans to expend $19,000,000,000 in one year. Allowance must be made for higher prices, and for expansion in capacity since 1914, but in any event the comparison is startling.

Industrial and Financial Problems Allied.

There are a thousand schemes to enable the Government to obtain money or credit—purchasing power—without reducing the purchasing ability of the people. They are all fundamentally in error, because they overlook the fact that the use of purchasing power is limited by the supply of things to be purchased.

It cannot be too often pointed out that the industrial and financial problems of the war are closely allied. They are two phases of one problem, but it is easier to see the physical limitations of the industrial task than the limitations upon the use of credit. Everybody can see that the speed with which we can get ready for war is limited by the supply of labor and the capacity of the workshops, but a great many people overlook the fact that when the labor and shop-capacity of the country are already completely employed nothing more can be accomplished by merely creating bank credit or issuing government credit in the form of money. Nothing can be gained except as labor, materials and shop-capacity are released from private use and turned over to government purposes. We cannot turn over purchasing power to the government and still use it ourselves. We cannot put the government in possession of productive power without curtailing our own use of it. We cannot make any serviceable contribution to the work the government has in hand without curtailing in the same degree our own demands for labor and materials. In short, we cannot help without making sacrifices.

The argument for inflation is succinctly stated in the following paragraphs from a letter by a correspondent writing to us on this subject:

> You maintain that the funds necessary for subscriptions should be supplied entirely by the saving process on the part of individuals—a source which I think inadequate to furnish the tremendous amount needed, especially as only new savings, not the old ones, already invested, can be made available for the purpose.
>
> But in all the belligerent countries a part of the necessary funds was supplied by fiat money,—the increase of paper money and of bank money ("money in banks"). True, it means inflation, to some extent. But on the other hand the vastly increased business activity requires additional money; on the other hand, such additional money would consist, *with us*, chiefly of bank money, and the inflation of that is not nearly so objectionable as that of the circulation medium; in fact, it would not matter much.

When the writer says that the savings of individuals are not sufficient to finance the war he is thinking only of money savings. He will hardly deny that all of the labor and supplies which are required for prosecuting the war must be "saved" from private use and consumption. This is the vital saving. One way or another it must be accomplished, either by voluntary effort, with the people turning their purchasing power over to the government, or by inflation which diminishes the purchasing power of the people in their own hands, until they are obliged to curtail purchases.

Expansion and Inflation.

There is a legitimate expansion of industry when the volume of production and trade is increased. There has been an important degree of such an expansion in this country since the war began. But when production reaches its maximum and the supply of the purchasing medium, either in the form of money or credit goes on increasing, the result will be that the new purchasing power must expend itself in driving up prices. This is pure inflation, which places the business of a country on a false besis and almost inevitably ends in disaster.

The disastrous effects would be far more serious at this time than at any previous period of history, on account of the great volume of securities outstanding, largely the obligations of corporations whose income is in greater or less degree regulated by law or custom, so that they cannot readily adjust their charges to the value of money. If issues of paper money should be resorted to, and gold should go to a premium, a new and very grave complication would result from the fact that these securities are usually payable in gold. Corporations which were obliged to buy gold at a premium with which to discharge their obligations would be in a precarious situation and the whole financial community would be involved.

It is said to be impossible to carry on the war without inflation, and it is doubtless true that some degree of it is inevitable. All countries have it, and there has never been a war without it. The reason is that war calls for immediate and gigantic preparations, and the readjustment of industry and of habits of the people cannot be made at once. But the more promptly a people can be brought to see that they must get out of the way of the government and relinquish labor and shop-capacity to government work, the more quickly the government will get its full strength into the war.

Government's Needs Unlimited.

There is no limit to the amount of man-power and shop-capacity which can be used. Superiority is wanted in artillery, in machine guns, in aeroplanes, in torpedo boats, in ships over submarines, in every arm of the service; and the greater the superiority of numbers the sooner the war will be over. We are fighting with an enemy who is organized to the last man, woman and child.

As the workshops are given over to government use, private consumption will be inevitably curtailed, and as this occurs the people obviously will have more money to invest in the government loans, thus enabling the government to assume its greater part in industry. The industrial and financial phases of the problem are complementary—they support each other. The country can pay for all the work it can put into the war, because the war work is necessarily surplus work, over and above what is required to provide subsistence. The one thing it cannot do is to go about daily business as usual and have the government fight the war on its own account.

Some lines of business are certain to be seriously affected by the war. It will be the part of wisdom for those interested to promptly recognize the fact and set about adjusting themselves to it. In most cases they will probably find it possible to so adapt their business as to render war service of some kind. In other lines the volume will not be reduced, although possibly it should be. Employment will continue full, and the amount of money in circulation will remain very large. The disbursements of the Treasury will be widespread, and it is of the highest importance that everyone shall lend his aid and influence to direct as much as possible of this stream back into the Treasury, thus accomplishing a twofold public service.

Banking Situation.

The money market is firm, with time money at 5¾ to 6 per cent. The best commercial paper is offered at the lower quotation, and collateral loans at the higher rate. Loans for high class industrial corporations, running two to three years command 7 to 7½ per cent.

The payments upon the second Liberty Loan on December 15th the country over were chiefly made, as heretofore, by drawing on New York balances. It is estimated that 80 or 85 per cent. of all payments upon the loan have been made by drawing upon New York funds. The effect is to make heavy balances against the Federal reserve bank of New York in its settlements with the other reserve banks, and in favor of the New York bank in its settlements with the clearing house. These payments are so large that in order to avoid disturbance the Federal Reserve Board has been asking some of the reserve banks of the interior to take paper from the eastern reserve banks instead of collecting gold through the settlement fund at Washington and they have been glad to do so.

The total of bills rediscounted and bought in the open market held by all Federal reserve banks was $961,911,000 on November 30th and $956,076,000 on December 28th. The loans and discounts of the clearing house banks of New York were $4,838,935,000 on December 1st and $4,118,775,000 on December 29th.

Monetary conditions over the country remain about as in recent months with funds supplied for current needs, and little demand except for handling the regular exchanges and war business.

In the Middle West there was an extraordinary demand for credit in November and early December from farmers for the purpose of buying cattle and hogs to feed upon soft corn, of which there was a great quantity. These loans will not mature until the spring months or early summer. On the other hand, there was a heavy movement of cattle out of parts of Texas on account of drought, and throughout the South generally the banks have been buying commercial paper more liberally than in even normal times. In the manufacturing districts the banks are loaned up close and resorting freely to the Federal reserve institutions. The need for credit is greatly increased by the high level of inventory values and the slow movement of materials and goods in transportation. Federal reserve discount rates have been generally advanced. At the New York bank the rate on commercial paper of more than 15 days maturity is now 4½ per cent.; under 15 days 3½ per cent.; on paper secured by Liberty bonds and Treasury certificates, 4 per cent.; bankers' acceptances, 4 per cent.

With importations of gold practically at an end, reserves are no longer building up as in the first two years of the war, and with credits expanding, money is bound to be close while the war demands last. The percentage of reserve in the twelve Federal Reserve banks against both deposit and note liabilities is 63.6, which of course is more than abundant for the maintenance of gold payments. The reserve of the Bank of England has not been above 20 per cent. for more than a year, but nobody thinks gold is likely to go to a premium in London. The objection to a continued expansion of credit by the Federal Reserve banks now is that it will mean inflation with all that inflation signifies.

The Liberty Loans.

After the payments made on December 15th, only $60,400,000 remained unpaid of the $1,163,000,000 of the Second Liberty loan

allotted to the New York district, and at the close of business December 29th the Treasury had received $3,336,982,600 of the entire loan of $3,808,766,150, although 40 per cent. does not come due until January 15, 1918. This is rapid payment, considering that it has been made in the tightest season of the year. Moreover, the payment has occasioned only moderate demands upon the banks, as shown by figures given below.

The Federal Reserve Board has inaugurated the compilation of a weekly statement showing the condition of member banks located in the central reserve and reserve cities and certain other important cities. It is a commendable innovation, especially at this time, when it is desirable to follow closely the changes in banking conditions. It is stated that the member banks reporting represent approximately 80 per cent. of the reserve deposits in the Federal reserve banks, so that their figures for loans, deposits, etc., may be accepted as fairly representative of the banking situation in the country.

The first of the statements was for December 7th, and the figures for that date and for December 28th are given below.

	Dec. 7 (607 banks)	Dec. 21 (614 banks)
U. S. securities owned.....	$1,763,125,000	$916,047,000
Loans secured by U. S. bonds and certificates...	373,517,000	401,182,000
All other loans and investments	9,542,255,000	9,651,387,000
Reserve with Federal res've banks	1,137,765,000	1,089,127,000
Cash in vault.............	388,228,000	364,156,000
Net demand deposits on which reserve is comp'd.	8,390,965,000	8,160,757,000
Time deposits	1,259,906,000	1,228,939,000

The reduction in holdings of United States securities is largely due to the payment of Treasury certificates, but in part to disposal of Liberty bonds.

The holdings of government bonds by all national banks on May 1st, 1917, before any Treasury certificates or Liberty bonds were issued, were $768,114,000. The figures for December 7 and 21 do not include all national banks, but, on the other hand, they include the large state banks and trust companies which have joined the Federal reserve system.

The figures for loans are net, not including re-discounts with the Federal reserve banks. The total amount of re-discounts secured by Liberty bonds held by Federal reserve banks on December 21st was $142,600,000.

This must be regarded as a very satisfactory showing, after the distribution of $5,808,000,000 of the Liberty bonds and $690,000,000 of Treasury certificates. One year ago nobody would have thought such a distribution possible without a greater use of bank credit. The expansion directly due to the government's borrowing has not been so great as the expansion which has resulted indirectly from the government's orders distributed among the industries. The effort to get these orders filled, with thousands of establishments bidding for labor and materials against the wants of private consumers, and against each other, has forced up costs and made it necessary to use more credit in the conduct of all business.

Liberty Bond Prices.

Liberty bonds have continued to come on the market in sufficient amounts to prevent a recovery of prices during the month. The 3½s are selling slightly under 98.50 and the 4s have been ranging from 97 to 97¼. It is evident that there was a considerable amount of deliberate over-subscription, with the intention of selling, and that this was encouraged by solicitors. Interest was centered upon making up the local quotas and persons were urged to subscribe upon the theory that the bonds would have a broad market and could be sold either at par or with only a slight loss. In many instances the seller expresses himself as satisfied to take a loss, as the cost of doing his "bit" for the government, not realizing that there are any further consequences.

It is important that there shall be a better understanding upon this point the country over. After such a campaign as the last one has been carried on in every city and village for weeks it is impossible that there should be a large unsatisfied demand for the bonds. When the war comes to an end, and the issues cease, the floating supply of bonds will be soon absorbed, and the price probably go to a premium, but the market will not take them under present conditions except at a discount. Moreover the seller at a discount has done something more than make a small personal sacrifice. He has disturbed the market for government bonds, and affected the outlook for future issues. It is hoped that the rate will not have to be raised, not only because a higher rate will increase the cost to the government, but because it will have an unfavorable effect upon the capital value of all outstanding securities and investments. But can the government place another issue of 4 per cents. at par when the last issue is selling on the market at several points below par? Each individual who sells government bonds below par is exerting an influence which may compel a higher rate in the future, and a relatively small aggregate of sales may cost the government very heavily, if the rate must be higher on a large issue running over a term of years.

It is suggested that somebody should "support" the market, but who knows what the outcome of that would be? The subscribers to these bonds were actuated very largely by a

sense of patriotic duty, and most of them are keeping the bonds in obedience to that sentiment, but if there was an apparently free market at par for them, indicating that they were actually wanted at that price, the offerings might be very large. Thousands of people might be glad to put themselves in position to subscribe to the next loan, or to use their capital otherwise.

After a large flotation it is inevitable that many subscribers will find it necessary to sell out, and there should be no obstacle to their doing so or criticism upon them, but it is a mistake to encourage subscriptions without any bona fide intention to take and pay for the bonds. The campaign for subscriptions is necessarily strenuous; it must be urgent; but the purpose of it is to supply the government with means to carry on the war. Nothing is accomplished by subscription lists which mean anything less than this. People should be urged to subscribe with the intention of economizing to the point of sacrifice to help the government through. As we have repeatedly sought to emphasize, the reduction of individual purchases, of individual demands upon labor and materials, is just as important as putting money in the Treasury. We must get down to the bare, hard facts of this war situation.

It would be an admirable move for the subscription committee in each locality to give some attention to the subscriptions which cannot be carried through and endeavor to replace them in the same locality. This would relieve the New York market of offerings from all parts of the country.

Another practice which although doubtless well intended works out undesirable results, is that inaugurated by merchants, of advertising to receive Liberty bonds in exchange for merchandise. If trade can be attracted in this manner a merchant probably can afford to sell the bonds at a discount. The government, however, does not want its bonds sold below the issue price. It is embarrassed and injured by every such sale.

Secretary McAdoo's Warning.

The Secretary of the Treasury in his annual report to Congress refers to the possibility that a higher interest rate may be necessary upon future bond issues, and says:

> I have indulged the hope that additional bonds could be sold on such reasonable terms that the remainder of the funds required to meet the estimated expenditures for the fiscal year 1918 might be raised by that means and thus escape additional revenue legislation at this session of the Congress. It is my earnest conviction that the general economy of the country should be permitted to readjust itself to the new revenue laws before consideration should be given to the imposition of additional tax burdens. If a situation should develop where the Government could not sell convertible and partly tax-exempt bonds upon a 4 per cent. basis, it would, I believe, become necessary to seriously consider further revenue legislation. In my judgment an increase in the rate of interest on such bonds would be extremely unwise and hurtful. The higher the rate on Government bonds, the greater the cost to the American people of carrying on the war and the greater will be the depreciation in all other forms of investment securities. We can not regard without concern serious declines in the general value of fixed investments. It should be the earnest endeavor of everyone to prevent this, and I earnestly hope that the processes of education and of unselfish consideration of the problem from the standpoint of the general interest will provide the necessary remedy.

It would probably be possible to handle another issue of 4 per cent. bonds at par by making changes in the terms as to maturity or redemption which would be less objectionable than an advance in the interest rate.

Treasury Operations.

At the close of business December 27th the Treasury had a cash balance of $820,679,516, of which $732,821,468 consisted of funds arising out of borrowing operations and remaining in special depositories. The amount in reserve banks was $61,141,037.

All Treasury certificates except those of the issue due in June, 1918, have now matured. Of the latter, $690,000,000 have been sold, the New York district taking $490,070,500. The Secretary is now receiving subscriptions to another issue of these certificates. After allotment, payment must be made not later than January 15th. The interest rate is 4 per cent. The certificates will be in denominations of $500, $1,000, $5,000, $10,000 and $100,000.

These certificates mature at a time when payments of income and excess profit taxes will be at the climax. They will be directly receivable by the Treasury upon such payments. It is important that firms and corporations whose Federal taxes will run into large sums should begin now to set aside a definite portion of their income for that purpose. It will not be safe for them to calculate that they can make offhand arrangements for credit next June, for the aggregate demand if it falls upon the banks at once may be too great for them to handle. These certificates are a convenient means of making advance provision for these payments, and it will be wise for bankers who have large customers likely to look to them for accommodations to either lay in a stock or direct attention to this offering.

The effect of a wide distribution of the certificates will be to put the Treasury in possession of the revenues gradually and in advance of tax-paying time, and to thus reduce the amount of bond-selling it will have to do in the meantime. Inasmuch as these certificates to the extent of several million dollars will be

liquidated by taxes, it would be quite safe to increase the amount authorized, which is now only $4,000,000,000, and thus delay the next Liberty loan into the spring.

Future Financing.

The report of the Secretary of the Treasury to Congress last month gave no encouragement to those who have hoped for some relaxation in the Treasury demands. He adheres closely to his former estimate of the expenditures that will be necessary in this fiscal year, placing them at $18,775,919,955. Ordinary receipts, including proceeds of the new taxation, are placed at $3,886,800,000. He received a remainder of $533,665,000 from the first Liberty loan, and will have $3,808,766,150 from the second Liberty loan. There remains authority to sell $3,666,233,850 of 4 per cent. bonds corresponding to the second issue, and he estimates an income of $663,200,000 from the War Savings Stamps. Altogether he figures a deficit of $6,195,187,155 to be provided for after selling the bonds remaining under the old authorization. This means nearly $10,000,000,000 in all, exclusive of taxes.

The actual disbursements from July 1st to December 26th, including loans to allies, amounted to $5,123,418,380, and for the last three months they have been as follows: October, $904,368,751; November, $986,081,807; December to the 26th, $1,026,821,323. If disbursements for the fiscal year are to reach the sum named they will have to amount to about $13,500,000,000 in the six months which remain.

We have already expressed the opinion that the country can pay for any amount of work it can do. That is a self-evident proposition, because the work will have been paid for by somebody when it is completed. A considerable portion of the work for which the $13,500,000,000 is estimated may be already done; what remains is a distribution of the cost. The $13,500,000,000 will scarcely get into the Treasury, but will be restored to the banks and circulation practically as received.

New Capital Flotations.

The subject of curtailing capital flotations upon the public market, or of determining the order of priority, has been under discussion. Owing to the physical difficulties attending upon new industrial undertakings and the high rates which capital now commands, the volume of such offerings has been greatly reduced, but the Secretary of the Treasury has the matter under advisement. His annual report says:

The Government must, if necessary, absorb the supply of new capital available for investment in the United States during the period of the war. This, in turn, makes it essential that unnecessary capital expenditures should be avoided in public and private enterprises. Some form of regulation of new capital expenditures should be provided. The subject is having deep study, and I hope to be able to submit some suggestions during the session of the Congress which will be of a constructive, as well as of a regulatory, nature. It may also become necessary to concert some constructive measures through which essential credits may be provided for those industries and enterprises in the country essential to the efficient and successful conduct of the war.

In England the regulations governing capital investments extend to control over any construction to cost $500.

The Bond Market.

Bond transactions during the past month have been subject to erratic fluctuations—"peace rumors," "war taxes" and "government control of railroads" playing an important part in the daily quotations.

Rails and industrials were inactive with fairly firm prices at the opening of the month. During the second week more activity developed but prices declined. The third week of the month witnessed a very general decline in all classes from high grade rails to the more speculative foreign governments, the latter being particularly weak. This condition continued until December 21, when wide advances were recorded in practically all of the foreign issues, Anglo-French 5s reaching a price of 89⅛, an advance of over seven points from recent low quotations of 81⅞. This sudden upturn in the market was attributed to the favorable influence of the Secretary of the Treasury's ruling on the inventory of securities in dealers' hands, which permitted losses in such securities to be deducted from the income tax returns without the actual sale of the securities. It is generally believed that the Secretary's ruling has relieved a great deal of pressure which resulted in the severe decline earlier in the month. These various currents have made it difficult to diagnose the market, for it is only under exceptional conditions that we experience such wide fluctuations in Anglo-French 5s, or an upturn of 1½% in a day in U. S. Steel 5s, which carried them to 96.

In the municipal market the noteworthy transaction of the month was the prompt sale of $15,000,000 Miami Conservancy District, Ohio, 5½% Bonds. The following quotation from the Annalist summarizes the general favorable comment which appeared in all financial dailies:

"The single bright spot was found in the perfectly phenomenal success of the offering of the Miami Conservancy District 5½s. This bond is something comparatively new in the investment field. Instead of being the obligation of a single municipality the Conservancy Flood Protection District covers an area of more than 169,000 acres of fertile territory in Ohio, taking in parts of nine counties, and including the cities of Dayton and Hamilton and a number of smaller municipalities. The

syndicate originally offered $10,000,000 5⅛s maturing serially from December 1, 1922 to 1946, at par and interest, with a substantial commission to dealers and institutions. The entire block was sold almost immediately, and the option on $5,000,000 more bonds exercised at the same price, and by Thursday the entire $15,000,000 bonds were placed so beautifully that a premium was bid on Friday. While the bond is in many ways unusually attractive, being exempt from all Federal taxes and yielding 5½%, the rapid distribution astonished even the syndicate members."

Other municipal issues during the month included

$10,000,000 New York City Three Months Revenue Bills at prices ranging from a 4.50% to a 5.02% basis.
$500,000 St. Louis, Mo., 4% School District Bonds, which were offered on a 4.60% basis.
$300,000 Westchester County 5% Bonds, which were offered on a 4.65% basis.

Over-the-counter business was restricted largely to the bond houses with active sales organizations in the field. Several small issues were offered with varying success, the more important including:

$1,250,000 Memphis Street Railway 6% Notes due Nov. 1, 1919, to yield 7.40%.
$1,500,000 United Light & Railways 6% Notes due May 1, 1920, to yield 7½%.
$1,200,000 Seaboard Air Line Ry. 6% Equipment Notes due June 1, 1918, to December 1, 1927, to yield 6¾% to 7%.
$4,000,000 Cleveland Electric Illuminating First 5% Bonds due April 1, 1939, to yield 5.85%.
$3,000,000 Edison Electric Illuminating of Boston 6% Notes due Dec. 1, 1919, to yield 6.65%.
$1,000,000 Northern Ohio Traction & Light 7% Bonds due Dec. 1, 1919-1926, to yield 7%.
$6,350,000 Cities Fuel & Power Co., 7% Notes, due Dec. 1, 1919, to yield 7½%.
$4,500,000 Shawinigan Water & Power Co. 6% Notes due Dec. 15, 1919, to yield 7.35%.
$1,000,000 United Electric Light Co., Springfield, Mass., 6% Notes due Dec. 1, 1920, to yield 6.65%.

The Wall Street Journal compilation of forty selected issues for December 26 was 82.19 as compared with 84.78 November 26, 1917, and 94.97 December 26, 1916.

Government Control Over Railways.

The action of the President in taking over the railways was one for which the country, including the railway officials, was prepared. The latter have been well aware of the gains that might be accomplished by closer relations between the roads, and have achieved important results in this way since last spring, but there were legal limitations upon what they could do. The earnings of each railway belonged to itself, and this fact could not be disregarded by a mere committee of officials in routing traffic. The government is able to guarantee the net earnings of the roads, on the basis of the last three years, and having done this it is in position to route the traffic, pool the equipment and earnings, make common use of the terminals, and in all respects manage the properties with a sole view to obtaining the greatest possible service out of them. The roads are freed from all the legal restrictions which were upon them in private hands. The new authority is superior even to the Interstate Commerce Commission.

This is done offhand, because the necessities of the country demand the best service that can be had. There is no time for elaborately worked out plans; it is important to immediately get all the railways of the country to working as one system. The Director-General in charge is the Secretary of the Treasury. This fact is enough to show that the roads will be operated by the Government only in the most general sense, for the Secretary of the Treasury is a very busy man even when he has nothing to do but manage the finances of the Government in time of war. The Director-General obviously will manage the railways only in the sense of determining general policies, but the very need of the situation is for a directing authority so far removed from details and from the special interests of localities or individual roads that he will see only the larger features of the problem and these from the national standpoint. His selection of assistants is an earnest of his intention to surround himself with the best railway talent in the country, and to give this great experiment every chance of success.

The response of the stock market to the action showed with what apprehension the public had been viewing the situation of the railroads. In the recent hearings before the Interstate Commerce Commission an attorney representing certain associations of shippers sought to maintain that railroad stocks were down simply because of general financial conditions, and not because of any lack of confidence in them as investments. The sudden rise that followed the President's action answered this theory. General financial conditions have been a factor in the market decline, but the public has been afraid of the future of the railways. Government control and possible ownership have not been considered bull arguments for railroad securities in the past, but it is a genuine relief to owners to be assured that for a time at least income will be stabilized on the basis proposed.

The present state of affairs is due to the fact that while production and commerce have been increasing with tremendous strides in recent years, railway facilities, particularly at the terminals, have not been correspondingly increased. The unsettled status of the railways has been largely responsible for this.

Future Policies.

There is a general belief that a permanent reorganization of the railway system will result from this venture, although the form it will take is a matter upon which opinions are widely divergent. Nobody has claimed that railway organization and practices were all that they should be,

but differences between the railway people and those who sought to regulate them have been such that no policy satisfactory to either has been worked out. The railways have desired to co-operate and combine to secure the very advantages which are now in view, but the legislators representing the public have been afraid to permit them to do so. The public policy has been to compel competition. The final adoption of unified management under Government control does not prove that either side was wholly right in the past. It does not follow that the roads should have been let alone to combine and do as they pleased, nor that Government ownership and operation is the ideal system. The ideal plan is somewhere between, and not far in principle from the plan now adopted temporarily. The Government should be in it in a supervisory capacity, but in the great transportation industry an opportunity should be kept open for individual initiative and enterprise. The possibilities of improvement are too great for the industry to be standardized and fixed in its methods under the deadening influence of bureaucratic management.

It is only necessary to turn to the Post Office department to find some of the faults of governmental management. The business of the Post Office is comparatively simple; it only handles and delivers the mail matter given to its charge. There is no great physical plant to keep up and develop as in the case of the railways. In his annual report submitted to Congress last month the Postmaster General again asked for authority to let contracts for the delivery of mail over rural routes, stating that he could save approximately $20,000,000 by doing so. This is the third time he has made this recommendation, and it is safe to say that it will receive no more attention now than heretofore. If the railways were to be conducted in this manner, and expenditures for their improvement and development were to be determined as expenditures for the improvement of rivers and harbors, and for the construction of postoffice buildings are now determined, it is easy to see what the results would be.

The railways of the United States are now in the hands of men developed under competitive conditions, and in the discipline of private business. They have been obliged to satisfy their superior officials, and at the same time had opportunities to better their condition by going to other companies. The roads, although operated nominally by the government, will be in reality operated by this staff. But what kind of a staff will take their places eventually, selected by civil service examination and promoted by seniority? Will the same type of railway officials be evolved under the regime of government ownership, if that should be the permanent system? That is the vital question up to the theory of government ownership.

The railways of Great Britain have been now more than three years under government management, and it is interesting to note that criticism is not entirely stilled. The London *Times*, commenting upon congestion at the terminals, says:

> The railways are certainly short of labor, but is it established that all the officials are putting their very best efforts into the solution of the present problems? The railways are now Government-controlled institutions and competition has diminished where it has not vanished. It seems to be a question whether quite the same amount of thought and work is being put into the efficient management of the companies as in the days before the war when the lines were keenly competing against each other. This question which has been raised of a slackening of effort directly in consequence of the nationalization of the railways is a serious one and evidently deserves inquiry. Only a railway man can speak with authority upon it. Many of the railway officials no doubt hold that the old competition of the pre-war days has been or should have been succeeded by a better competition—namely, a competition among the companies to serve best the national interest. The whole matter of dealing with the cargoes passing through the ports is vitally important, since it is known that the carrying capacity of the ships could be enormously increased by giving quicker dispatch. There are signs in all directions that no efforts are being spared by the shipping authorities to use all tonnage to the utmost possible extent. Similar signs that the railway authorities are giving as much attention to their side of the problem would be welcome. No one with even the most superficial knowledge of the subject can doubt the existence of very great difficulties under which the railways must now be working. But the public is entitled to know if the railways are now using what remains to them with the utmost efficiency.

The Acceptance.

Knowledge of the advantages to be gained in the general improvement of credit conditions, and in securing greater mobility of credit, by the use of the trade acceptance in place of the open book account is spreading, but the change is not as rapid as it ought to be, in view of the great importance to the country at this time of adopting the most scientific and economical methods of handling business. An important effort to hasten the general adoption of the policy has been recently started by the creation of the Trade Acceptance Council, a body of nine members, which had its inception at the September meeting of the Chamber of Commerce of the United States at Atlantic City. That body gave one session upon its program to a discussion of the acceptance and created a committee of three to co-operate with committees of other organizations in promoting the extension of its use. The American Bankers' Association, meeting at Atlantic City on the following week, appointed a committee of three to act with the committee of the Chamber of Commerce, and the National Association of Credit men appointed a committee

of three to act with the two committees foregoing. These three committees have organized the Trade Acceptance Council, with Mr. Lewis E. Pierson, of the Irving National Bank, New York, as President, and Mr. J. H. Prego, of the National Association of Credit Men, as Secretary.

The arguments in favor of the acceptance in place of the open book account should be conclusive to the man who believes in doing business upon sound principles and in definite terms. In the first place, the execution of an acceptance converts the account into a negotiable instrument, which as a definite, tangible asset is much superior to a mere book charge. It closes the original transaction, and while it does not prevent a buyer from making subsequent representations as to errors in an invoice or defects in the quality of goods, it brings about a prompt disposition of such questions, as in case where a cash discount is taken.

In the second place, an acceptance is a promise to pay on a date certain, and as the paper is likely to be in other hands at maturity, it is understood that punctual payment is expected.

If there are good reasons why the buyer cannot meet his acceptance at the due date, he can present them to the seller and arrange with the latter to take up the paper, possibly issuing a renewal. That this is not so easy a method of getting more time as to simply neglect the payment of a book account, is to be counted in favor of the acceptance. Punctuality is a virtue in the business world, and every practice which tends to cultivate it is to be encouraged. A vast amount of business is done in this country upon credit, and the granting of credit for definite periods is an entirely legitimate business practice, but it would be greatly to the advantage of both buyers and sellers if there was stronger insistence upon prompt payment of debts when they fall due.

The objection is sometimes made that the greater ease of financing purchases by means of the acceptance may encourage over-buying, but there is reason to believe that the greater obligation to make prompt payment will be an effective restraint upon both sellers and buyers.

Gives Mobility to Credit.

Over and above the fact that the conversion of book accounts into acceptances will promote sound business methods there is the larger consideration that it will more effectively utilize the credit resources of the country and tend to separate the banking function from the merchandising function. After a sale has been effected to a responsible party, and nothing remains of the transaction but a short credit, there is public economy in utilizing bank credit. It is the business of banks to trade in credit as it is the business of merchants to trade in goods and the banking system is a reservoir in which the temporarily idle credits of the country accumulate. Among the thousands of banks there are always many who do not have use for all their funds locally. The Federal Reserve Board as a deliberate policy has made the acceptance a preferred form of credit. The fact that the Federal reserve banks will rediscount acceptances at the lowest rates makes them a most desirable investment for member banks, and there is reason to believe that there will be a steadily widening market for them as all the advantages from their use become generally understood. They carry on their face the evidence which the reserve banks require as to the commercial character of paper offered for rediscount, and this is calculated to give them great mobility. As the supply of well-known names on the market increases, trading will increase, and banks may be expected to resort to this class of outside paper to take up their idle funds. The efforts of the Federal reserve authorities to build up a broad discount market are deserving of the support of business men and bankers. They have given the lead, provided the outlet for paper of this class, and the business interests of the country should co-operate.

Of course the fact that paper is executed in this form will not obviate the necessity for close attention to credit conditions and a careful scrutiny of names. It will not make good risks of poor names, but it will give greater fluidity to sound credit, and in that way help the country to finance its needs in the period of financial strain through which we are now passing.

The acceptance is not urged as a substitute for the cash discount. No doubt it is desirable to have the buyer, where practicable, finance himself entirely independent of the seller, but in a country where so large a volume of trade is carried on upon open acounts it will not do to say that no improvement short of the complete adoption of cash payments is worth while. There is a large field in which credit conditions can be improved by using the names of seller and buyer together. Both will be benefited, and both will be prompted to more scrupulous attention to sound business methods in order to protect their credit.

It will promote the introduction of the acceptance if business men of the various branches of trade will pursue a common policy in regard to it, and this is being done in some instances. The National Implement and Vehicle Association has adopted resolutions recommending it to members of that body. Other organizations have done likewise, and the Trade Acceptance Council proposes to take up the subject with all commercial bodies.

Lake Washington Canal, Seattle.

A long talked of public improvement, serviceable to commerce, has been completed at Seattle this year, by opening the ship canal connecting Lake Washington, through Lake Union, with the waters of Puget Sound. Lake Washington is a fine body of fresh water, 25 miles long and 4 miles wide, lying on the eastern boundary of Seattle, the surface 9 feet above the sound at high tide. As long ago as 1856, General George B. McClellan, a government engineer, recommended to the Secretary of War, Jefferson Davis, the construction of a water way on the line now followed by this canal. There was not much commercial use for it at that time, but ocean shipping derives important benefits from anchorage in fresh water, which clears salt water barnacles from the hulls. As Seattle grew to be an important port the project was revived, and finally undertaken, the Federal government, state, county and city sharing in the expense. The national government bore all of the cost of the locks, which are capable of accommodating larger vessels than any other locks in this continent, save those of the Panama Canal. The canal is eight miles long, 100 feet wide and 36 feet deep. The principal lock is 825 feet long, 80 feet wide and holds a depth of 50 feet of water. Ocean-going vessels make the passage through the large lock in 20 minutes, and smaller craft go through a smaller chamber in 5 to 10 minutes. The total cost of the canal, including right-of-way, locks, etc., was about $5,000,000.

The canal furnishes a great non-tidal harbor, with an abundance of frontage for docks and warehouses, convenient of access from the city. Its completion is an important event to Seattle, but such achievements are of national significance as well, for the whole nation is served by every permanent improvement in the facilities of its ports.

STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS DECEMBER 28, 1917.

(In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas. City	Dallas	S. Fr'sco	Total
Gold coin and certificates in vault	19,900	323,306	18,322	29,202	6,206	5,740	31,885	4,906	14,757	1,588	12,241	31,774	499,917
Gold Settlement Fund	16,977	20,854	39,101	37,168	22,097	13,407	54,674	17,884	20,287	37,206	24,223	13,642	317,520
Gold with foreign agencies	3,675	18,112	3,675	4,725	1,837	1,575	7,350	2,100	2,100	2,625	1,838	2,888	52,500
Total gold held by banks	40,552	362,272	61,098	71,095	30,140	20,722	93,909	24,890	37,144	41,419	38,302	48,304	869,937
Gold with Federal Reserve Agents	37,897	250,599	56,946	55,410	31,602	49,821	124,400	32,366	31,920	42,058	25,037	43,801	781,851
Gold Redemption Fund	2,000	10,000	1,500	99	485	1,099	615	930	868	507	1,218	24	19,345
Total gold reserves	80,449	622,871	119,544	126,604	62,227	71,642	218,924	58,276	69,932	83,978	64,557	92,129	1,671,133
Legal tender notes, Silver, etc.	3,960	40,784	1,149	210	185	444	771	634	365	53	714	366	49,635
Total Reserves	84,309	663,655	120,693	126,814	62,412	72,086	219,695	58,910	70,297	84,031	65,271	92,495	1,720,768
Bills discounted, Members	65,931	254,985	39,521	44,601	30,107	16,260	106,525	39,812	13,491	34,814	8,873	25,786	680,706
Bills bought in open mark't	8,341	148,125	18,417	22,026	13,038	6,935	8,662	7,380	7,799	1,425	14,368	18,850	275,366
Total bills on hand	74,272	403,110	57,938	66,627	43,145	23,195	115,187	47,192	21,290	36,239	23,241	44,636	(c) 956,072
U. S. Governm't long-term securities	610	1,309	7,467	8,268	1,221	2,547	7,007	2,333	1,888	8,849	4,496	2,455	48,350
U. S. Governm't short-term securities	2,194	8,493	2,648	31,221	1,969	1,491	3,388	1,444	1,341	1,784	1,430	1,500	58,883
Municipal Warrants		511	10	7		302			25		150		1,005
Total Earning Assets	77,076	413,423	68,063	106,123	46,335	27,535	125,562	50,969	24,544	46,872	29,317	48,591	1,064,310
Due fr. other F. R. Bks. net				9,216		2,112	5,692	6,078	1,065	2,639		5,684	(b) 11,936
Uncollected Items	19,012	75,975	32,896	22,180	19,784	17,090	36,841	16,538	8,344	23,615	15,307	12,565	301,107
Total deduction from gross deposits	19,012	75,975	32,896	31,396	19,784	19,202	42,533	22,616	9,409	26,274	15,307	18,249	313,043
5% redemption fund against F. R. bank notes										400	137		537
All other resources					287	537	492	316	661		720		2,813
TOTAL RESOURCES	180,497	1,153,053	221,612	264,333	128,818	119,160	388,282	132,711	105,911	157,577	110,752	159,335	3,101,471
LIABILITIES													
Capital Paid in	5,858	18,684	5,687	8,026	3,664	2,811	9,067	3,474	2,617	3,396	2,795	4,163	70,442
Government Deposits	6,798	8,838	5,638	30,797	3,278	4,704	6,829	5,874	8,164	8,943	6,334	12,116	108,213
Due to members—reserve account	79,215	603,613	84,382	107,946	43,721	38,176	169,789	49,391	40,314	68,968	44,980	62,671	1,453,166
Collection Items	14,861	40,982	27,076	14,551	14,144	7,909	21,582	13,512	5,305	12,549	8,747	10,475	191,693
Due to other F. R. Bk's net	606	9,085	4,343		5,816						720		
Other deposits incld'g. for Government credits		12,150		109		52	2,930	187	7	28		2,502	17,965
Total Gross Deposits	101,480	734,668	121,439	153,403	66,959	50,841	201,130	68,964	53,690	90,488	60,781	87,764	1,771,037
F. R. Notes in actual circulation	72,214	396,970	93,643	102,221	58,195	65,508	178,085	60,273	49,604	53,299	47,176	67,300	(a) 1,246,488
F. R. Bank Notes in circulation, net liability										8,000			8,000
All other Liabilities incl. Foreign Govern't credits	945	2,731	843	683						394		108	5,504
TOTAL LIABILITIES	180,497	1,153,053	221,612	264,333	128,818	119,160	388,282	132,711	105,911	157,577	110,752	159,335	3,101,471

(a) Total Reserve notes in circulation, 1,246,488.
(b) Difference between net amounts due from and net amounts due to other Federal Reserve Banks, 11,936: The Gold Reserve against net deposit Liabilities is 59.7%; Gold and lawful money reserve against net deposit liabilities 63.1%. Gold Reserve against Federal Reserve Notes in actual circulation, 64.3%.
(c) Bills discounted and bought; municipal warrants: 1—15 days 395,813; 16—30 days 118,555; 31—60 days 280,788; 61—90 days 152,831; over 90 days 9,090. Total 957,077.

1812

1918

Economic Conditions
Governmental Finance
United States Securities

NEW YORK, FEBRUARY, 1918.

Money Market.

THE money market has not shown the degree of relaxation which had been hoped for following January 1st and after the completion of payments upon the Second Liberty Loan. To be sure these payments were accomplished with remarkable ease, considering their magnitude, and the bank statements show only moderate loans on that account, but other loans and discounts are very high and showing little tendency to decline, although this is the season of the year when they usually work lower.

Although interest rates are about the same as a month ago there is less flexibility in the situation. The banks are taking care of the requirements of customers, but doing little beyond this, and the effect of this situation is to keep borrowing within channels, and eventually to make conditions less liquid. If interest rates followed the course of commodity prices they might easily be much higher, and it is a question whether they ought not to be higher as a restraining influence. The fact that interest rates do not rise with the demand for commodities and prices encourages business expansion, which would be beneficial if it resulted in a real expansion of production, but the chief effect now is upon prices. The banks, however, are reluctant to raise rates above the accustomed levels, and would be subjected to criticism if they did. The Federal reserve banks are expected to take the lead in making policies, and in November and December a general increase of about ½ per cent. was put into effect. The Boston reserve bank is maintaining a rate of 5 per cent. upon discounts of 16 to 90 days, against 4½ at the other reserve banks on 16 to 60 day paper, and 4½ at all but the Chicago and Minneapolis banks on 61 to 90 day paper.

Call money rates in New York have been governed by the transfers between the banks and the Treasury, ranging from 3 to 6 per cent. The payments upon the last installment of the Second Liberty loan amounted for the whole country to about $350,000,000, and the drafts drawn by the interior upon New York were promptly offset by transfers through the Gold Settlement fund from the other reserve banks to the New York bank.

The attention of individuals and officers of corporations having heavy taxes to pay next June is again directed to the importance of making provision for the means of payment at an early day. If they expect to borrow the requisite funds on the last day in the afternoon they may have an unpleasant experience, for no one can tell how many of such cases there will be. The offering of 4 per cent. Treasury Certificates due June 25 is well suited to this purpose, but in any event some arrangement should be made in ample time.

London Money Market

It is a noteworthy fact that money is easier in London than in New York, and that the market rate in London is now lower than at any time in 1916 or 1917, 4 per cent. being the present Bank of England rate to clearing house banks. The rate on Treasury 3 and 6 months bills was reduced from 4¾ per cent. to 4 per cent. on December 27th. Three years ago, when our Federal Reserve Board inaugurated the campaign to create a discount market here for foreign trade acceptances, the New York rate on that class of paper was 2 to 2½ per cent. and the London rate was 5 per cent., but the New York rate has advanced to 4 to 4½ per cent. and the London quotation has fallen to 3 15-16 to 4 1-16.

This seems to be an extraordinary situation, after England has been 3½ years at war, and has raised and spent about $24,000,000,000 of new money. We must conclude that the demand for credit for business uses is lighter there than in the United States, doubtless because of more stringent control over industry. An individual cannot employ money or labor in England for any purpose he chooses and it is time to think about the same policy here.

Bank of England, 4 Years.

In this connection it is interesting to review the condition of the Bank of England as shown by the first statement in January for four years, and the figures are given below, to-

gether with the market rate for 3 months bills, and amount of Exchequer notes outstanding:

	1915	1916	1917	1918
Circulation...	£35,876,575	£35,194,245	£39,895,160	£46,591,020
Public deposits	23,808,643	58,156,684	53,147,093	32,074,902
Other deposits	133,348,529	105,835,576	116,388,305	158,411,326
Government Securities..	14,810,845	32,840,016	62,187,545	70,833,770
Other Securities..	108,921,870	114,748,048	91,789,493	106,480,723
Reserve in bank'g dept.	51,421,918	34,358,315	33,572,304	31,057,820
Coin and bullion	68,848,493	51,102,580	54,957,464	59,198,840
Proportion of reserve to liabilities ..	$32\frac{3}{4}$	21	$19\frac{3}{4}$	$16\frac{1}{4}$
Bank rate of discount ...	5 per cent.	5 per cent.	6 per cent.	5 per cent.
Market rate 4 mos. bills...	2 15-16	$5\frac{1}{8}$	$5\frac{1}{4}$	4
Exchequer currency notes in circulat'n	38,478,164	103,125,099	150,144,177	212,450,951

The classifications, "Government securities" and "other securities" describe collateral loans. It will be noted that the increase of all loans in three years is only about £54,000,000, or approximately $250,000,000, which is not large in view of the magnitude of financial operations, and the increase of deposits is less, but the financial critics are attacking the Treasury management for using too much bank credit. The figures should interest Americans who conterd that the banks must finance the war. The only sign which seems to tell of inflation in large degree is the increase of exchequer currency notes, of which about $1,000,000,000 are now outstanding. These notes have not been issued in payment of government expenses, but to the banks in exchange for gold and Bank of England notes and it is claimed that they have been needed to take the place of gold in circulation and to provide the larger amount of currency required by the higher prices and intense industrial activity.

Coincident with the reduction of the rate of interest on British Treasury bills interest rates on bank deposits in London were dropped to 3½ per cent., except to foreign depositors, who will continue to receive 4½ per cent. This is for the purpose of retaining foreign deposits.

Banking Conditions.

The Federal reserve banks show a slight reduction of re-discounts from the high point, bill holdings on January 25 aggregating $901,574,000, against $961,852,000 on November 30. Some of this was due to the payment of loans made upon Treasury certificates which were retired. Bill holdings a year ago were $113,408,000. Total earning assets January 25 were $1,029,670,000, against $181,426,000 a year ago. It is instructive to compare this expansion with the Bank of England changes shown above. The combined reserve of the twelve banks is 65.4 per cent. of deposit and note liabilities.

The reports of member banks of the leading banking centers of the country, inaugurated by the Federal Reserve Board, in December show comparative condition on December 7 and January 18 as follows:

	Dec. 7 (607 banks)	Jan. 18 (662 banks)
U. S. securities owned............	$1,763,125,000	$935,794,000
Loans secured by U. S. bonds and certificates	373,517,000	381,310,000
All other loans and investments....	9,542,255,000	9,958,227,000
Reserve with Federal reserve banks.	1,137,765,000	1,147,274,000
Cash in vault......................	388,228,000	394,856,000
Net demand in deposits on which reserve is computed.............	8,390,965,000	8,901,939,000
Time deposits	1,259,906,000	1,361,800,000

Considering the larger number of banks reporting in January this shows a fair reduction of loans based on United States securities. The reduction in United States securities owned is due largely to the payment of Treasury certificates. The total amount of Government securities owned may be compared with $768,144,000 owned by all national banks on May 1, 1917, before the war loan was issued.

The representative character of these reporting banks is shown by comparing their demand deposits, which aggregate $8,901,939,000, with the deposits of all national banks on September 11 last, which were $7,679,370,000.

Banking Expansion.

The banking expansion which has taken place since the close of the year 1914 is indicated by the following condensed statement of the deposits, loans, and holdings of United States and other securities of national banks at the dates given:

In thousands of dollars; 000 omitted.

	Dec. 31, 1914	Nov. 10, 1915	Nov. 17, 1916	Nov. 20, 1917
Deposits, net, on which reserve is computed	$6,668,325	$8,256,662	$9,976,980	$10,348,806
Loans and discounts, including overdrafts	6,363,435	7,241,140	8,355 101	9,550,571
U. S. bonds......	791,995	777,765	724,473	†2,354,183
Other stocks, bonds and securities*..	1,313,787	1,343,822	1,747,794	1,949,619

* Exclusive of Federal Reserve Bank stock.

† Includes United States certificates of indebtedness and payments on account of subscriptions for Liberty loan bonds.

The principal items of the weekly statement of the Clearing House banks of New York are given below for the dates stated:

	Jan. 26, 1918	Dec. 1, 1917	Dec. 30, 1916
Loans, investments, etc., ...	$4,113,882,000	$4,838,935,000	$3,339,450,000
Net demand deposits	3,666,713,000	3,465,325,000	3,334,272,000
Net Gov't deposits.	243,546,000	931,155,000	*...........
Cash and reserves..	690,318,000	723,703,000	691,842,000
Excess reserve	96,681,750	152,122,000	117,335,000

* Not reported in Clearing House statement.

The increase of loans and investments shown by these figures has been mainly due to holdings of Government securities, principally Treasury certificates.

The deposits, loans and discounts and cash resources of all banks of St. Paul and Minneapolis, for the dates stated, are given below, as an indication of banking conditions in that section of the country:

	Dec. 31, '17	Nov. 20, '17	Dec. 27, '16
Deposits	$308,084,000	$310,659,000	$245,342,000
Loans and discounts....	198,063,000	204,340,000	186,575,000
Cash resources	94,079,000	83,159,000	72,829,000

These figures show a decided gain of deposits and cash resources over a year ago, with a small increase of loans, a very satisfactory showing.

Bank Credit and The Bond Issues.

With another bond issue looming up for the early Spring, and little prospect of a reduction of bank loans in the meantime, there is more talk to the effect that the banks will have to be a larger factor from now on in Government financing. Business men say that with the high prices they are needing all their capital in their own business, and bankers say that it is taxing their resources to take care of their home demands and they think they will have to pass all subscriptions up to the reserve banks to be carried. All of which means that we have not yet comprehended that the war is of first, not secondary, importance. We will never make a success of it by giving it what time, money and labor we have left over after the home demands are satisfied.

The Federal Reserve authorities have repeatedly shown anxiety that bank loans shall be kept down, and that the public shall be impressed with the necessity of curtailing private enterprises and expenditures and paying up on the bond subscriptions. But there is something so plausible and insidious about the idea of financing the war by having the banks create new credit that the stern alternative of cutting down the use of credit for other purposes, and of curtailing all business but that which supports the war, has a poor chance of popular favor beside it.

What is the objection to a pyramid of credit, based upon government bonds, and consisting, first, of individual credit, second, of member bank credit and, finally, of reserve bank credit, all backed by the taxing power and the power to issue money? What can be better than such a combination as this? Why not finance the war in this way?

The answer is that this pyramid of credit cannot add one day's work to the industrial resources of the country. The entire program upon which the Government is proposing to spend about $20,000,000,000 this year is all a matter of a days' works. In times of peace the labor of the country is employed in private operations. The production consists in part of necessaries for immediate consumption, in part of luxuries, and in part of additions to the productive equipment. Now comes the war, and the Government wants to take over a great portion of the working force, and also asks the people to turn into the Treasury money enough to pay it. The rational way of complying with this request would seem to be, first, cut out the production of luxuries or non-essentials; second, cut down the additions to permanent improvements and equipment, restricting them to such only as will aid in carrying on the war and the essential industries; third, keep enough people employed upon necessaries to support the country and the army, and put all the others on war work; fourth, turn into the Treasury through taxes and loans the money which was previously paid to these people now released from private service to war work; since we are no longer expending it in the old way we can let the Government have the use of it. The account balances. The country has simply diverted purchasing power from one class of work to another.

The other way of meeting the Government's appeal for help is to say, as considerately as possible, and with all possible assurance of patriotism, that we are sure that if allowed to continue our industries and occupations as usual we will be able to do a great deal more for the Government than we possibly can if we are interfered with; therefore, we offer to cooperate in getting up this pyramid of credit, and challenge the world to show wherein this credit is defective or insufficient. We, as individuals, will give our notes to our bankers, the latter will lend us the credit with which to buy Government bonds, and we will deposit the bonds with our notes as collateral security; the bankers can re-discount these notes at the Federal reserve banks, and thus recoup themselves for the advances they have made; and, finally, the Federal reserve banks, on the strength of the Government bonds in their possession, and by virtue of the power to issue money, can furnish the currency to pay all bills.

The object of this elaborate scheme—this pyramid of credit—is to supply the Government with the means to go off and fight the war by itself, leaving us, the people, to go on with business as usual, undisturbed. The only weakness in the scheme is that it does not provide the Government with army, navy or equipment. These can be had only by taking men—labor—out of peace employments and placing them in the employ of the Government. But when this is done, they go off our private pay-rolls and upon the Government's pay-rolls, and if we will now pay into the Treasury what we formerly paid to them, or for the things they were making, there will be no need for a pyramid of credit.

Government Demands Unlimited.

There is a theory that this war task can be somehow handled by increased energy and out of resources heretofore in reserve. But the demands of the Government are very elastic; they amount to all it can get. The more men we can send to France the better, the more cannon we can put on the line the better, the more ships and aeroplanes and supplies of infinite variety we can send, the better. And finally the more people we can keep on the farms and send back to the farms, the better. There was 15% less hired labor on the farms of New York State in April, 1917, than the year before, and still less now. It is said that people cannot change their occupations, that many are not adapted to the work now of pressing importance, but such comments only show that the imperative nature of war demands

are not understood. The people who utter them need to take a trip through the war zone and interview the inhabitants. They would come back with a different idea of the importance of keeping people in their accustomed occupations and of sustaining the luxury trades.

Expansion and Inflation.

We have attempted before to show the difference between expansion and inflation in the banking situation. The former results from taking up the slack in industry, increasing the activity and production of all branches, and some degree of increase in wages and prices which is incidental thereto and unavoidable. The condition of scarcity and abnormal demand created by the war, and the reaction of foreign markets upon our own, would inevitably cause a rise of materials and labor even though inflation did not follow.

But it is almost impossible to tell where legitimate expansion runs into inflation, and this is the peril of the situation. To the individual employer who sees an insistent unsatisfied demand for his goods at profitable prices it looks like legitimate expansion to borrow money to increase his output, but if he only accomplishes his increase by drawing labor away from some other equally essential industry, the country has gained nothing and inflation has begun.

It can hardly be questioned in view of labor conditions over the country and the increase of bank loans which has occurred in the last two years that a considerable degree of inflation has already occurred. Moreover, the condition of the railroads, with more business than they can handle, indicates that the expansion of industry for the present is up against a rather definite limitation in that quarter. Official reports to the effect that there is no shortage of labor in the country must be taken with many grains of allowance, as opposed to common knowledge.

The prices of the staple commodities show that the public is bidding against itself insistently. The review of the cotton goods market in 1917 by "Cotton" says:

> All previous records of sales were eclipsed. Cloth that had been bought very moderately for the fall season of 1917 at 9 cents and 10½ cents, was sold for the spring season of 1918 to the fullest capacity of the largest mills at prices ranging from 16½ to 17½ cents. In the middle of December, when it became necessary to put prices on gingham lines for fall, 1918, these lines were priced at 22½ cents and 23½ cents. The well known Amoskeag 19,000 range shirting chambray was priced for fall, 1918, at 25 cents a yard, net. In early 1915, the same cloth sold as low as 6½ cents. The curious part of the situation was that the demands at the top prices indicated were less easily satisfied than the calls made for the goods at the low prices.

In the knit goods section the same publication says:

> Buyers in the main took as many dozens as a year ago, notwithstanding the almost criminally high prices forced on manufacturers by higher operating costs and the ascendency of yarns. A specimen radical advance is shown in a line of ribbed shirts and drawers which sold normally at $1.92½ a dozen and is selling now at $5.25. In November, 1916, buyers raised the cry that the consumer would not stand for the high prices which the distributors then paid with much reluctance. The buyers were wrong. Not only is business going along "as usual" measured in dozens, but there is a strong leaning toward the better grades at prices higher than ever before were heard.

The Boston Commercial Bulletin in its annual review of the wool trade (1917) says:

> On the first of January, 1914, fine staple territory wools were quotable at 51 cents, clean basis; the following January 1, they were worth 63 cents; two years ago, they had risen to 75 cents and a year ago to $1.10, while the current quotation is from $1.85 to $1.90.

The New York *Journal of Commerce* of January 29, 1918, says:

> During the past two weeks, while the markets have been filled with dry goods buyers, it has been made clear that merchants are thinking more of credits and production than of distribution and consumption. The anxiety to get orders entered with mills for goods to be made for fall delivery has been unlike anything the present generation of merchants has encountered in previous experience. Knowing that mills cannot possibly turn out as many goods this year as last year, buyers have gone on laying down larger orders than a year ago and have been filing statements to show that the need of more goods is genuine and not based upon speculative hopes. How the goods will be paid for appears to have been settled in the minds of the buyers, or at least they have quibbled less about high prices than they do normally about low prices.

The same situation exists in practically all lines of commodities. The country is trying to solve the problem of a shortage of goods by raising prices and wages. Each individual thinks he can solve his own part of it that way, but the only real solution is by adapting consumption to supply and by curtailing production in some lines in order that there may be more labor in other lines.

Prices and Credit Related.

It is said that there must be more credit in order that business can be handled upon this price level, but prices and the supply of credit act and react upon each other. More credit means more facilities to the public for bidding against itself. When facilities for making purchases increase faster than the facilities for making goods, with a demand situation like the present, any amount of credit will be absorbed. Legitimate expansion becomes pure inflation.

When credit is placed at the disposal of the Government, or created by the Government for its own use, and checked over to individuals in payment for commodities or services, it continues to be purchasing power in the hands of the recipients, and when they pass it on it enters into bank deposits and general circulation as new purchasing power, and is never extinguished until this process of circulation is stopped by the cancellation of an equal amount of indebtedness and bank deposits.

The new purchasing power put into circulation by Government operations and remaining in circulation, supports competition with the Government for labor and supplies, increases the cost of everything it must buy, decreases the purchasing power of its income from taxes and bond sales, compels a corresponding increase of taxation and loans, makes a greater debt to be carried after the war, probably for a long period, and when the earnings and profits of tax-payers are likely to be much lower than in war time. Furthermore, it promotes the creation of a great body of private indebtedness which will have to be worked out after the war under similar onerous conditions.

It is especially important that these principles shall be clearly comprehended by the bankers of the country in order that the policies of the Federal Reserve Board and of the Treasury Department shall have intelligent interpretation and support throughout the banking system. It is recognized that there must be a large amount of borrowing for the loans; temporary accommodations must be freely extended, but the fact that the Government requires real capital must be brought home to the people. If it is necessary to extend credit to promote subscriptions to the Government loans, then an effort should be made to curtail the use of credit in other directions, so that borrowing in the aggregate will be kept down. If the industries are to be largely occupied with war work it should be possible to reduce the volume of borrowing for other uses, and it is the duty of bankers to see that enterprises which are not essential to the public interests at this time, are not allowed to absorb funds. Credit is to be dealt out on the same principle upon which coal is allotted, with a realization that the supply is limited and every dollar is needed.

The vast expenditures of the Government at a high level of prices and wages, and with employment running full and over, in itself creates a demand for things for private consumption which if it has free play will interfere with Government operations. It will be admitted that it is not possible to have such a complete adaptation of industry as will subordinate all private actions to the Government needs. Some degree of inflation is inevitable, but the less there is of it the better. The further along we get the more clearly it appears that the directing hand of the Government is required throughout the task, substituting war work for non-essential work by distributing contracts in such a way that the existing industrial organization will be utilized and the supply of non-essential things thus definitely curtailed at the source.

Corporate and Private Financing.

The needs of the Government for capital have created a difficult situation for all borrowers who must look to the general market for funds, and have made it necessary that steps should be taken to have such cases passed upon by some competent authority. From one standpoint it is desirable to keep the market closed to efforts to raise money for unnecessary undertakings, and on the other hand it is equally important that corporate or private financing which is necessary to maintain the credit or efficiency of vital industries, or to extend or provide for essential public services, shall have proper attention.

The New York *Evening Post* has compiled a list of corporation obligations in sums of $500,000 and over, which will mature in the year 1918, amounting to $669,943,772, and divided as follows: Railroads, $259,775,238; Public Utilities, $214,661,080; Industrial and miscellaneous, $195,507,454.

Needs of Railroads.

The railroads are in the hands of the Government so far as operating policies are concerned, and this would seem to include the determination of expenditures for equipment and extension of facilities. Director-General McAdoo, however, has indicated that he expected the several companies to do their own necessary financing in the public market, and that the strong companies would be able to raise funds on the strength of the Government guaranty of earnings. This probably will be true of the companies whose guaranteed earnings are sufficient to meet the requirements. The pending railway bill carries an appropriation of $500,000,000 from which the President is authorized to "provide terminals, improvements, engines, rolling stock and other necessary equipment," but he may "also make, or order any carrier to make, any additions or improvements necessary." It is probable that those in good credit will be required to make their own terms in the public market and that the Government will give help where necessary and the public interest requires.

The Federal Reserve Board has announced a voluntary plan of organization for passing upon capital issues amounting to $500.000 or over in the case of corporations and $250,000 or over in the case of States, counties and municipalities. It has created a Capital Issues Committee, consisting of three members of the Board, and an Advisory Committee composed of three investment bankers, and all persons, firms, or corporations contemplating capital issues are invited to communicate voluntarily with the Capital Issues Committee. The latter and the Advisory Committee will undertake to pass only upon whether the object of a proposed undertaking is such as to entitle it to an opportunity upon the market at this time. Although the submission of projects to the Capital Issues Committee is voluntary unless Congress enacts legislation to make it compulsory, it is believed that it would be difficult to interest the public in an enterprise which did not have its approval.

The Capital Issues Committee will organize at each of the twelve Federal Reserve Banks local committees to furnish to it such additional in-

formation and recommendations as the Board may require in dealing with cases originating in the respective districts.

"War Finance Corporation."

The Secretary of the Treasury has prepared a bill for the creation of a new corporation, to be known as the "War Finance Corporation," which if adopted by Congress will not only have the power to license or refuse to license corporations desiring to place securities on the public market, but to supply credit for such purposes to an extent reaching startling figures. The Corporation is to be managed by a Board of Directors consisting of the Secretary of the Treasury and four appointed persons, and the capital is to be $500,000,000, all provided by an appropriation from the Treasury. The Corporation will be empowered to make advances for periods not exceeding five years, to banks which have outstanding loans to persons or industrial companies whose operations shall be necessary to or contributory to the war, and also, in exceptional cases, to make loans direct to such persons or companies; such loans not to exceed 75 per cent. of the value of the collateral furnished; also to make loans to savings banks for periods not exceeding 90 days, same to be covered by collateral to the extent of 125 per cent.

So much of the measure will be generally accepted as creating powers which it is desirable to have lodged in a Government Board, in view of the present extraordinary financial conditions, but the bill goes on to empower this Corporation to issue its interest-bearing notes in the exercise of its functions to the amount outstanding at any one time of eight times its capital, and to authorize the Federal reserve banks to deal in such notes in the same manner and to the same extent as bonds or notes of the United States not bearing the circulation privilege, and to rediscount or purchase paper secured by such notes in the same manner and to the same extent as paper secured by obligations of the United States, and with the approval of the Federal Reserve Board use these notes as the basis of currency issues. It is further provided in this connection that when Federal Reserve notes are issued for this purpose, a special interest charge may be made on them, in the discretion of the Federal Reserve Board. This is evidently for the purpose of exercising some degree of restraint over the volume of such issues, but it would be a very slight brake for a very heavy load on a very dangerous down-hill road.

These are extraordinary times and nobody wishes to withhold from the administration at Washington any degree of authority which may be necessary to secure the most effective mobilization and use of our resources during the war, but this measure clearly contemplates the use of credit in a manner and to a degree which in our opinion cannot be advantageous to the country under any conceivable circumstances.

Our views as to the use of bank credit or paper money in financing the war have been definitely expressed repeatedly, and are expressed elsewhere in this issue, so that it is unnecessary for us to go further here than to say that we do not believe there will be any occasion to inflate the credits of the reserve banks or the currency of the country to the extent indicated, or that it can be done without disastrous results. It is undoubtedly important to support the essential industries of the country and bring them to the highest possible efficiency, but the printing press is not an effectual agency for accomplishing that purpose. That end must be accomplished by organizing, coordinating and directing the industries and concentrating them upon war work.

Moreover, as this is the view which the Federal Reserve Board and the Secretary of the Treasury have tenaciously held and ably advocated in the past we feel bound to assume that they are not really intending to depart from it so far as the text of this measure would indicate. We think it a mistake to even countenance such a policy by providing for its possible adoption.

Emergency Currency Issues.

We recognize one condition under which it might be desirable that sound investment securities should be accepted by the reserve banks as the basis of loans and currency issues. That is in case of a great crisis which included a run on the member banks or savings banks by depositors. It is conceivable that this might occur at a time when in some localities the banks might not have an ample supply of the paper now defined as eligible for re-discount, in which case, and for no other purpose, the public interests would be served if municipal and railroad bonds and other high-class securities, were accepted. Not a few people regretted to see the Aldrich-Vreeland act expire completely, for this reason. The plan proposed by the National Monetary Commission provided for such issues under extraordinary conditions, by special permission of the Secretary of the Treasury.

There is a distinct difference, however, between the use of currency to pay off depositors and its use to increase the purchasing facilities of the community. When used to pay off depositors there is no inflation of credit, but merely a substitution of one form of credit for another, and it occurs at a time when contraction and liquidation are the order of the day.

The refunding of railway and other obligations maturing in the near future does not involve any serious competition with Government financing for they do not require a net amount of new capital. If they are paid off by fresh capital an equal amount of old capital is released. Their successful refunding is almost wholly a matter of interest rates, and a

guaranty by the War Finance Corporation or by the Government direct would certainly take care of such cases.

The only demands for capital which come into competition with the Government are those which require the investment of labor and materials and whatever hocus pocus may be resorted to for obtaining credit it is certain that labor and materials cannot be conjured up by legislation. They must be saved from other uses, and saving is not promoted by the mere expansion of credit.

Farm Loan Situation.

The Federal Farm Loan Board in its annual report issued last month represents that a serious situation exists in the farm loan field, in that not only the amount of new capital available for farm improvement is much restricted, but that an important amount of capital already invested in farm loans is being withdrawn, as maturities occur, for investment elsewhere. On account of the abnormal financial conditions, which have interfered with the introduction of Farm Loan bonds, and to supply capital for promptly relieving the situation the Board recommended that Congress authorize the Secretary of the Treasury to purchase $100,000,000 of Farm Loan bonds in each of the fiscal years ending June 30, 1918, and June 30, 1919. On the strength of these representations an act carrying out these recommendations has been passed.

The Farm Loan Board reported that applications had been filed for $210,750,740 of loans, and approved for $105,136,529 of them, and that loans had actually been completed for $29,824,655. The method of making loans through cooperative associations is found to be somewhat cumbersome, and the cause of delay, but the Board recommends that it be tried for another year. The interest rate to borrowers has been raised to 5½ per cent.

Loan Maturities.

The extent to which investors will desire to shift their funds from farm mortgages to other securities is uncertain. Insurance companies are a very large factor in the farm loan situation, and it is not likely that they will make any radical change in their policies, although they may raise interest rates to correspond with the yield from other securities. The Farm Mortgage Bankers Association estimates that $800,000,000 of farm mortgages mature annually, and one prominent authority estimates that 20 per cent. of the maturities will have to be paid or refunded. This would seem to present a serious situation, but it probably does not involve much more than an advance of the interest rate.

The market for loans upon city property is very much depressed, but aside from reductions which are required to bring loans into line with property values little is heard of compulsory payments.

Next Government Loan.

No decision has been announced as to the date, amount or terms of the next Liberty Loan. The Secretary of the Treasury has offered for sale $400,000,000 of Treasury Certificates, bearing 4 per cent interest, due April 22nd and convertible into the Third Liberty Loan, which has been taken as indicating that he expects to have the Loan closed before that date, and will probably open the campaign not later than March 15th.

The Secretary has repeated the statement that the Treasury will have to raise $10,000,000,000 by loans between now and July 1st, and in view of the huge tax payments which come in June the bonds will apparently have to be sold in one campaign. The total amount of Treasury Certificates permitted to be outstanding at one time under existing law is $4,000,000,000, and of these more than $1,000,000,000 are due on June 25th. The proceeds of these have been received and disbursed. This leaves only about $3,000,000,000 of the certificates available to apply on the $10,000,000,000 requirement, but Congress may increase the authorization.

It is assumed that there will be new financial legislation before the next bond issue is announced. The amount of bonds remaining unsold under the existing authorization in only $3,666,233,850, and, moreover, it is not likely that another offering will be made without changing the terms in some respects. The Second Liberty 4's are now selling on the market at about 96¼, and with the further decline opinion has grown that it will be advisable to raise the rate, or in any event change the terms in some manner which will improve their status. At 96¼ they yield a little under 4.25 per cent to the purchasers. A new issue might carry 4 per cent but be redeemable at a premium, or the time might be shortened and the rate raised.

Sales of 3½s and 4s.

The total sales of the Second 4's on the stock exchange since the trading in them began on November 3, up to and including January 26, was $90,238,000, and the total sales of first 4's (converted 3½'s) was $2,318,000. The aggregate sales of both classes of 4's, therefore, was $92,556,000. These comparatively small offerings have broken the market, because normal demand was already more than satisfied. The figures will show the error of thinking that the individual who sells his bonds below cost is merely making a patriotic sacrifice at his own expense, and go far to answer the query whether a person should subscribe to help make up a quota and with the intention of selling as soon as subscriptions are closed. It is just as important to keep the bonds as it is to subscribe for them, and nothing is gained by not meeting the money-raising problem face to face. We say this with full appreci-

ation that these subscribers who expected to sell and accept a loss were actuated by a very commendable desire to help the cause.

Certificate Issues.

As the proceeds of the Second Liberty Loan have now been received in full and expended, the Treasury will be dependent for the next ten weeks or more mainly upon sales of Treasury Certificates, and it is desirable that these shall be stimulated. Heretofore, the New York banks have taken from 40 to 60 per cent. of each issue, not because they wanted so many, but because it was necessary to meet the needs of the Treasury. The Federal Reserve Board is now urging that each reserve bank present to the banks of its district the importance to the Treasury of a general response to these offerings, and the special advantages which they offer to the banks as short investments. They run only a few months and are a certain means of creating credit at the reserve banks. It is estimated that the Treasury will have to raise by this means approximately $300,000,000 per week until it begins to receive the proceeds of the next loan. The Governor of the Boston Reserve Bank having been appealed to by the Reserve Board to raise the quota for that district, and having conferred with the officials of the Boston Clearing House has issued a circular letter to the banks in that district, asking each bank to subscribe weekly to these successive issues an amount equal to 1½ per cent. of its total resources. In ten weeks subscriptions at this rate would amount in the aggregate to 15 per cent. of a bank's resources. The total resources of all the national banks, state banks and trust companies in the country are about $37,000,000,000 and of all national banks about $17,000,000,000. As complete voluntary compliance by all banks is not to be expected the proposal of a uniform subscription of 1½ per cent. of resources is a reasonable one. Governor Morss says, truly, that the Secretary of the Treasury has the right under existing conditions to ask the banks for this service. The certificates will be received in payment for subscriptions to the next loan, and by taking them in installments from week to week the bankers will be anticipating the loan subscriptions and handling the payments in the most convenient manner. If all bankers will participate as suggested, the situation can be handled without difficulty, but if many decline to do so they will throw an excessive burden upon the others. All of this is true and urgent. The greatest financial task ever undertaken by any nation is directly before the United States, and the first effort is up to the banks.

$10,000,000,000 in Five Months.

The task of raising $10,000,000,000 in the next five months, in addition to the payment of income and profit taxes, is something stupendous to contemplate. Moreover, it still perplexes the average man to figure out how this amount can be disbursed for services performed. Excluding taxes, the sum amounts to an average of $2,000,000,000 per month to July 1st. Of this, $500,000,000 per month is for the Allies, but as it will be expended in this country it need not be considered separately from our own disbursements. From July 1st to January the total disbursements aggregated $5,201,808,914 and for the month of January to and including the 28th they amounted to $1,013,857,304. It does not seem possible that the amount of work actually done between now and July 1st can call for $10,000,000,000, but work may be under way and partially completed which will bring the payments up to that sum. In that case, however, the payments, probably would be largely in reimbursement of bank advances, which would make the task in some degree easier.

We have maintained that the industrial end of the Government's undertakings is more problematical than the financial end, because in the nature of things, whatever work is actually done can be paid for, and in fact is already paid for, by somebody. The contractors, or whoever has loaned money to them, or sold things to them on credit, have paid for it. When goods have been delivered the cost of making them has evidently been borne by some one. What remains to be done, is to distribute the cost over the country and reimburse the people who have made the advances.

Foreign Exchanges.

The merchandise exports and imports of the United States for the last three calendar years compare as follows:

	1917.	1916.	1915.
Exports	$6,226,000,000	$5,480,900,931	$3,554,670,847
Imports	2,952,000,000	2,391,716,335	1,778,596,695
Excess imports...	$3,274,000,000	$3,089,184,596	$1,776,074,152

Imports and exports of gold in 1917 were as follows, by months:

1917:	Imports	Exports	Excess Imports
December	$2,500,000	$4,500,000	*$2,000,000
November	3,000,000	7,000,000	*4,000,000
October	4,000,000	11,000,000	*7,000,000
September	4,171,513	31,332,396	*27,160,883
August	18,692,170	46,049,306	*27,357,136
July	27,000,000	69,000,000	*42,000,000
June	91,000,000	67,000,000	24,000,000
May	52,000,000	58,000,000	*6,000,000
April	32,000,000	17,000,000	15,000,000
March	139,498,590	17,919,601	121,578,989
February	103,766,495	22,068,059	81,698,436
January	58,926,258	20,719,898	38,206,360
Total............	$536,555,026	$371,589,260	$280,483,785

It will be seen that the heavy importations were in the early months of the year. In the latter part of the year the Government placed an embargo upon exportations, which was very effective. The understanding when the embargo was announced was that gold would be supplied to accommodate our necessary trade, but it will be seen that the amount of requirements adjudged necessary in the last three months was very small.

Abnormal Exchange Rates.

This policy has resulted in an abnormal state of affairs in the exchanges, the dollar being generally at a discount in the neutral countries. The Scandinavian exchanges have been at a premium of 20 to 25 per cent., Swiss 20 per cent., Holland 10 per cent., Spain 25 per cent., and Argentina 10 per cent. The situation as to Argentina has been most serious, because of our heavy importations of wool and hides from there, and absolutely required for our industries. Finally an agreement has been reached by the United States Government with the Government of Argentina by which the latter creates a bank credit in Buenos Aires through which obligations of United States importers may be liquidated. The Government of the United States gives assurance that this credit will be eventually satisfied by the movement of gold, but for the present United States merchants having payments to make in Argentina will pay the amount into the Federal Reserve Bank of New York, plus 3 per cent. to cover transportation and expense, for account of the Argentine government. This is an interesting situation, as the Argentine government, a borrower abroad, is virtually lending its credit to the United States, a neighborly and friendly act, mutually beneficial.

The Argentine government has entered upon a much larger credit operation with Great Britain and France for a similar purpose. These governments have agreed to purchase 2,500,000 tons of grain of the present harvest, and Argentina has agreed to open a credit of $100,000,000 for each country, to run for two years at 5 per cent. interest. Bonds of Great Britain and France will be deposited with the Argentine legations in London and Paris to the amount of the grain purchases. The loans will be ultimately satisfied by interest and dividend payments accruing to British and French investors in Argentine properties.

Rupee Exchange.

A similar arrangement has been accomplished between the United States and the Government of India. The latter created a credit of 10,000,000 rupees in favor of the Federal Reserve Bank of New York, and importers having obligations in India may pay the amount of same, at the rate of 34.50 cents to the rupee, into the Reserve Bank. The first credit was granted about December 1st and a second 10,000,000 rupees has now been granted. Eventually this credit will have to be liquidated in silver or gold, and negotiations have continued for several months between the United States Government, for itself, and the Government of Great Britain, and the leading silver producers of this country for the purpose of taking over the entire silver product of this country and Canada, and also with a view to obtaining legislation relative to the temporary use of the stock of silver dollars in the United States Treasury.

Treasury Silver.

These dollars—some 400,000,000—comprise the only large stock of silver metal in the world, and as they are represented in circulation by paper there have been persistent proposals to obtain their release, so that they could be used at their bullion value to settle the trade balances which exist against the United States and Great Britain and in favor of India, China and Japan. Unofficial reports have come from Washington from time to time that a plan was under consideration and likely to be agreed upon by which Federal reserve notes would be substituted in circulation for silver certificates, thus releasing the dollar pieces for export. New legislation would be necessary to allow the reserve banks to issue these notes in one and two dollar denominations, and in order to get this legislation from Congress without reviving the old silver issue it was considered necessary to provide that the Government should replace the dollars in the Treasury later, and protect the silver producers against an unfavorable effect upon prices by agreeing to take the entire production of the country for a given term at a price fixed in the act.

The Government of Great Britain was to join in the arrangement by taking 60,000,000 ounces per year. The price seems to have been the stumbling block. The producers have held out for $1 per ounce, which is objectionable to Great Britain as above the present Indian coinage rate.

Meanwhile our exchange position with Japan has been relieved by the latter country taking $40,000,000 of British Government obligations.

Federal Reserve Banks.

The events of the past year and policies adopted by the Federal Reserve Board have tended to increase the authority of the latter and to develop the system upon the practical basis of a Central Bank with branches. The power granted the Board to require one bank to re-discount for another has been exercised, and funds are readily shifted by means of the stock of gold held in the settlement fund at Washington. The Board states in its annual report recently issued that its policy is "to maintain an approximately uniform reserve position for all of the Federal Reserve Banks and to correct wherever necessary, by means of interbank rediscounts, the inequalities which result from seasonal movements of trade, or, more particularly, from the operations of Government financing."

The loans of each bank within its district are naturally subject to the general supervision of the Board merely as to character and rates, which is true in all branch bank systems, but

STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS JANUARY 25, 1918.

(In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco	Total
Gold coin and certificates in vault	13,865	317,972	18,790	20,362	6,257	6,531	31,549	5,474	15,181	1,390	9,310	26,231	472,012
Gold Settlement Fund	34,290	97,111	37,196	40,184	12,367	16,893	39,014	26,656	14,554	24,635	19,368	25,942	384,210
Gold with foreign agencies	3,675	19,112	3,675	4,725	1,837	1,575	7,350	2,100	2,100	2,625	1,838	2,888	52,500
Total gold held by banks	51,830	432,295	59,661	65,271	20,461	24,999	77,913	34,230	31,835	28,650	30,516	55,061	912,722
Gold with Federal Reserve Agents	44,354	236,467	64,916	64,610	26,305	47,575	120,514	34,882	37,522	48,369	22,181	46,134	793,829
Gold Redemption Fund	2,000	10,000	1,500	61	251	1,483	815	888	1,159	465	1,253	81	19,956
Total gold reserves	98,184	678,762	126,077	129,942	47,017	74,057	199,242	70,000	70,516	77,484	53,950	101,276	1,726,507
Legal tender notes, Silver, etc.	5,346	37,901	2,243	1,327	176	871	4,462	1,336	627	90	1,445	428	56,252
Total Reserves	103,530	716,663	128,320	131,269	47,193	74,928	203,704	71,336	71,143	77,574	55,395	101,704	1,782,759
Bills discounted, Members	52,814	222,620	33,810	49,360	32,254	11,348	110,924	29,966	13,140	32,545	9,499	29,352	627,662
Bills bought in open mark't	9,307	168,278	14,179	12,978	13,403	6,824	8,521	5,930	2,226	35	13,263	18,968	273,912
Total bills on hand	62,151	390,898	47,989	62,338	45,657	18,172	119,445	35,896	15,366	32,580	22,762	48,320	c 901,574
U. S. Governm't long-term securities	610	5,139	5,307	8,265	1,231	1,747	7,007	2,333	3,617	8,862	4,071	2,425	50,525
U.S. Governm't short-term securities	4,344	15,213	4,023	26,271	1,969	1,491	5,878	1,444	2,372	5,784	2,430	1,500	72,669
All other earning assets		511	10		66	608	1,651	280	1,003		707	66	4,902
Total Earning Assets	67,105	411,742	57,329	96,874	48,923	22,018	133,981	39,853	22,308	47,226	29,970	52,341	1,029,670
Due fr. other F. R. Bks. net		394		10,330	4,045		14,573	5,164		6,087	1,792	1,661	b 32,505
Uncollected Items	16,395	75,298	38,917	21,333	18,609	20,496	45,772	17,028	10,236	27,728	18,465	13,106	323,763
Total deduction from gross deposits	16,395	75,662	38,917	31,983	22,654	20,496	60,345	22,192	10,236	33,815	20,257	15,067	356,208
5% redemption fund against F. R. bank notes										400	137		537
All other resources					130	71							201
TOTAL RESOURCES	187,030	1,204,067	224,566	260,126	118,900	117,513	393,030	133,381	103,687	159,015	105,759	169,112	3,169,375
LIABILITIES													
Capital Paid in	5,829	19,212	6,775	8,221	3,736	2,855	9,170	3,481	2,651	3,396	2,796	4,217	72,439
Surplus	75	649			116	40	216		38				1,134
Government Deposits	5,247	16,227	10,970	20,890	6,134	5,286	13,603	11,619	7,943	11,039	10,274	16,457	135,691
Due to members—reserve account	79,295	680,314	84,061	110,521	42,979	37,694	173,351	49,015	38,814	73,566	42,147	69,184	1,480,743
Collection Items	12,450	55,906	29,025	15,206	12,792	11,615	18,793	12,840	3,573	7,551	5,230	9,284	194,854
Due to other F. R. Bk's net	7,832		2,084			225			1,670				
Other deposits incld'g. for Government credits		32,275		231		3	2,590	111	28	21		2,448	37,697
Total Gross Deposits	104,854	784,722	126,140	146,857	61,905	54,879	208,327	73,585	52,028	91,976	53,251	97,373	1,849,086
F. R. Notes in actual circulation	75,872	397,462	91,430	104,756	53,143	59,739	180,165	56,061	48,930	55,278	44,617	67,481	a 1,234,934
F. R. Bank Notes in circulation, net liability										8,000			8,000
All other Liabilities incl. Foreign Govern't credits	376	2,023	221	292			152	234	40	[illegible]	95	41	3,782
TOTAL LIABILITIES	187,030	1,204,067	224,566	260,126	118,900	117,513	393,030	133,381	103,687	159,015	105,759	169,112	3,169,375

(a) Total Reserve notes in circulation, 1,234,934.

(b) Difference between net amounts due from and net amounts due to other Federal Reserve Banks, 32,505: Ratio of gold reserves to net deposit and Federal Reserve note liabilities combined 63.3%. Ratio of total reserves to net deposit and Federal Reserve note liabilities combined 65.4%.

(c) Bills discounted and bought; municipal warrants: 1—15 days 390,361; 16—30 days 170,308; 31—60 days 203,570; 61—90 days 125,159; over 90 days 14,313. Total 903,711.

the twelve institutions are operated virtually as one, with headquarters at Washington. The Board in its recently issued report for the year 1917, makes it clear that the frequent meetings of officials of the Banks with the Board during the first two years of the system's operation were for the purpose of obtaining suggestions during the development of the system, but that the Board is now in position to exercise its authority freely. It says:

"The events of the past year have done much to bring into their proper relationship as parts of a working whole the several component elements of the Federal Reserve system. Experience has demonstrated that in all vital matters of general policy calling for prompt and decisive action concentration of responsibility without division of authority is indispensable. The position of the Federal Reserve Board, as the co-ordinating agency for all of the 12 banks and as the governing body of the Federal Reserve system, is now well defined and the line of distinction between the local management of each one of the 12 banks as a district bank, and the operation of all of the 12 banks as a system, has become more marked."

The change in credit conditions which has occurred since the United States entered the war has very much increased the earnings of the reserve banks, and they are now all on a profitable basis. Six of them have paid dividends to December 31, 1917, and of the others St. Louis and San Francisco have paid to December 31, 1916, and Philadelphia, Cleveland, Kansas City and Dallas to June 30, 1917. The six banks which have paid up all dividends in arrears have also paid into the United States Treasury sums aggregating $1,134,234, being one-half of their surplus earnings to December 31, 1917, as a franchise tax, in pursuance of law. The other one-half of surplus earnings will be carried to the surplus fund of each bank until this fund equals 40 per cent. of the bank's capital, after which all surplus earnings go to the Treasury. The earnings, expenses and dividends of these banks in 1917 are reported by the Federal Reserve Board as follows:

Fed. Res. Bk.	Gross earnings	Net earnings	Amount of dividends	Fully paid to—
Boston	$1,198,009	$912,294	$597,829	Dec. 31, 1917
New York	4,848,291	3,718,955	1,941,641	Do.
Philadelphia	1,015,958	753,874	622,150	June 30, 1917
Cleveland	1,297,244	963,152	715,615	Do.
Richmond	770,009	512,223	240,945	Dec. 31, 1917
Atlanta	541,823	327,313	215,972	Do.
Chicago	2,022,278	1,509,871	860,057	Do.
St. Louis	736,774	502,156	284,566	Dec. 31, 1916
Minneapolis	628,338	418,137	363,876	Dec. 31, 1917
Kansas City	955,950	684,499	360,236	June 30, 1917
Dallas	569,430	353,475	187,744	Do.
San Francisco	854,755	547,044	394,490	Dec. 31, 1916
Total	$15,838,859	$11,202,993	*$6,785,121	

* Exclusive of $16,603, representing dividends paid on surrendered stock and miscellaneous adjustments in dividend account.

During the year branches have been established at Omaha by the Federal Reserve Bank of Kansas City, at Louisville by the Federal Reserve Bank of St. Louis, and at Portland, Seattle, and Spokane, by the Federal Reserve Bank of San Francisco, and are now in operation. The Board has, in addition, authorized the establishment of branches at Pittsburgh and Cincinnati by the Federal Reserve Bank of Cleveland, at Detroit by the Federal Reserve Bank of Chicago, at Baltimore by the Federal Reserve Bank of Richmond, and at Denver by the Federal Reserve Bank of Kansas City.

Bond Market.

The opening week of the year evidenced more activity in municipal, railroad, industrial and public utility bonds and a tendency toward slight improvement in prices. United States Steel 5s advanced over two points. This movement, however, was not sustained during the remaining weeks of the month and rails and industrials evidenced narrow price fluctuations.

The municipal market in the second week of the month showed signs of improvement as the result of a better inquiry from savings banks and investors. Dealers report their stocks low, and comparatively speaking there have been few offerings by municipalities. The closing week showed a still firmer tendency as the result of inquiries from institutions and investors.

Following is a list of the more important corporate issues offered:

$1,000,000 Kansas City Railways 6% Notes, due Dec. 1, 1919, @ 97¾ and interest, to yield 7¼%.

$1,360,000 Manchester (N. H.) Traction, Light & Power 6% Notes, due Jan. 1, 1920, @ 98 and interest, to yield 7%.

$1,500,000 United Light & Railways 6% Notes, due May 1, 1920, @ 96⅝ and interest, to yield 7½%.

$10,500,000 Toledo Traction, Light & Power 7% Bonds, due Jan. 1, 1920, @ 98½ and interest, to yield 7.82%.

$3,000,000 American Gas & Electric 6% Notes, due Jan. 1, 1920 and 1921, at prices to yield about 7½%.

$1,000,000 Nevada-California Electric Corp. 6% Notes, due Jan. 1, 1920, @ 97¼ and interest, to yield about 7½%.

$2,000,000 Kansas City Terminal Ry. 1st Mtge. 4% Bonds, due Jan. 1, 1960, @ 75½ and interest, to yield 5½%.

$1,500,000 Republic Railway & Light 6% Notes, due Jan. 1, 1920, at a price to yield 8%.

$1,000,000 Fall River Electric Light 7% Notes, due Jan. 15, 1920 @ 99¾ and interest, to yield about 7⅛%.

$6,000,000 Cuban American Sugar First Lien 6% Notes, due Jan. 1, 1919-1921, at prices to yield 6⅞% to 7⅜%.

$12,000,000 American Can Co. Serial Notes, due seven to ten months on a 7% discount basis.

$40,000,000 American Telephone & Telegraph 6% Notes, due Feb. 1, 1919, @ 99.05 and interest, to yield about 7%.

$3,000,000 Island Oil & Transport 7% Notes, due Sept. 1, 1920, @ 99 and interest, to yield about 7%.

$3,000,000 Monongahela Valley Traction 6% Notes, due Feb. 1, 1919, @ 99 and interest, to yield 7.05%.

$1,200,000 Bush Terminal 6% Notes, due March 15, 1918 to Dec. 15, 1920, at prices to yield 7.25%.

The more important municipal offerings for the month include:

$850,000 Hamilton County, Ohio, 30-year 5% Bonds, to yield 4.80%.

$1,500,000 Cleveland, Ohio, School District 5% Bonds, maturing 1 to 20 years, offered on a 4.75% and 4.80% basis.

$2,000,000 City of Newark, N. J. 6 months' Notes, offered on a 4¾% basis.

$600,000 Omaha, Nebraska, 20-year 4% Bonds, offered on a 4.85% basis.

$524,000 Hoboken, N. J., 5% Serial Bonds, offered on a 4.75% and 4.80% basis.

$600,000 City of Everett, Mass., 10 and 11 months' Notes, offered on a 4.90% to a 5.10% basis.

$5,000,000 New York City 4 months' Revenue Notes, offered on a 4.25% to 4.30% Bank Discount basis.

The average price of 40 standard issues as reported by the *Wall Street Journal* on January 30 was 84.14, compared with 82.54 December 30, 1917, and 96.06 January 30, 1917.

International Banking Corporation.

The International Banking Corporation, affiliated with this bank, opened an office at Batavia, Java, Dutch East Indies, on January 1, 1918.

Discount Rates.

Discount rates of each Federal Reserve Bank approved by the Federal Reserve Board up to Jan. 31, 1918.

Federal Reserve Bank.	MATURITIES. Discounts. Within 15 days, including member banks' collateral notes.	16 to 60 days.	61 to 90 days.	Agricultural and live-stock paper over 90 days.	Secured by U. S. certificates of indebtedness or Liberty Loan bonds: Within 15 days, including member banks' collateral notes.	Secured by U. S. certificates of indebtedness or Liberty Loan bonds: 16 to 90 days.	Trade Acceptances. 1 to 60 days, inclusive	Trade Acceptances. 61 to 90 days, inclusive
Boston	4	5	5	5	3½	4	4½	4½
New York	3½	4½	4½	[illegible]	3½	4	4	4
Philadelphia	4	4½	4½	5	3½	4	4	4
Cleveland	4	4½	4½	5	3½	4	4	4
Richmond	4	4½	4½	4½	3½	4	4	4
Atlanta	4	4½	4½	5	3½	4	4	4
Chicago	4	4½	5	5½	3½	4	3½	4
St. Louis	4	4½	4½	5½	3½	4	4	4
Minneapolis	4	4½	5	5½	3½	4	3½	4
Kansas City	4	4½	4½	5	3½	4	4	4
Dallas	4	4½	4½	5	3½	4	3½	4
S'nFrancisco	4	4½	4½	5½	3½	4	4	4

*Rate of 3 to 4½ per cent for 1-day discounts in connection with the loan operations of the Government.

Note 1. Rate for acceptance purchased in open market, 3 to 4½ per cent, except for Boston, Chicago, and Minneapolis, whose rates range from 3 to 5 per cent.

Note 2.—In case the 60-day trade acceptance rate is higher than the 15-day discount rate trade acceptances maturing within 15 days will be taken at the lower rate.

1812

THE NATIONAL CITY BANK OF NEW YORK

1918

Economic Conditions Governmental Finance United States Securities

NEW YORK, MARCH, 1918.

History of the Greenbacks.

THE enormous increase of governmental expenditures made necessary by war has been so often the occasion for issues of paper money that many people are ready to assume that a great war cannot be carried on without them. That idea is strengthened in this country by the fact that this Government resorted to paper money during the Civil War, was victorious in the war, and eventually brought the "greenbacks" to par with gold, and has retained them as a part of the permanent currency stock. A great many people were so favorably impressed by the apparent services of these paper issues during the war that they could see no reason for retiring or redeeming them at any time, and for fifteen years after the war was over the political life of this country was intensely agitated by controversies over them. There were proposals to pay the bonded debt by further issues, on the theory that what was good enough for the soldier was good enough for the bondholder, with numerous variations of the idea that the Government should furnish an adequate supply of money for every laudable enterprise, and it took a long, and at times doubtful, struggle to get this paper, originally issued as a temporary expedient to tide the country over a dire emergency, definitely established on a gold basis.

In the eyes of many people the "greenbacks" had become hallowed as an agency by which the life of the nation had been saved. They were lauded as means by which the country had escaped from the clutches of the money-lenders, and suggestions for their retirement were usually attributed to bankers, who were supposed to want them out of the way for selfish reasons. The influence of the paper money upon prices and wages was too obscure to be traced by the average man, but he thought he could see that the Government got something for nothing when it issued them, instead of hiring money from bankers, and this was held to account for all antagonism in that quarter. It was a difficult question to deal with in popular discussion. No issue could be injected into politics that would be more easily subject to misrepresentation or that would better serve the purpose of demagogues than the paper money issue which dominated our politics from 1865 to 1879. It is one of the most serious objections to any departure from sound principles in dealing with money, credit or banking that the controversies which inevitably result are sure to be distorted into the form of class conflicts—of antagonism between those who have capital and those who have not. The greatest mischief wrought by the "greenbacks" has been in fomenting agitation of this kind.

The Silver Agitation.

The country escaped the odium of repudiation in connection with its Civil War financing, but it was a grave question for a time what the outcome would be, and it escaped by a compromise which kept the Government notes in circulation with provisions for convertibility so inadequate that in every time of financial stress they have been an element of weakness. No competent student of our financial history doubts that in each one of our crises they have cost the country far more than their face value.

Moreover the seeds of that agitation over the "greenbacks" sprang up again in the demand for the free coinage of silver, and all of the misrepresentations, all of the falsehoods and sophistries and insidious appeals to class feeling which had characterized the paper money campaigns had to be met again. Fortunately the proposition itself was defeated, and the financial theories of its advocates were so completely disproved by the general prosperity which followed that they were completely dropped, but the spirit of that free silver campaign is still very much alive.

The silver agitation was dealt with at first by compromise, and then by a second compromise which granted more to the agitators than the first. It grew stronger by what was fed to it, until it would accept no compromise, and then was defeated in a colossal struggle, and by none too safe a majority.

All of these compromises were insisted upon by "practical" people, who admitted that theo-

retically those who stood out for sound principles were probably correct, but that statesmanship required concessions; moreover, conditions were always "unusual." When the first "greenbacks" were issued the very existence of the nation seemed to be at stake, while in later emergencies times were hard, prices of products were low, mortgages were oppressive, industry was depressed, etc., and each time those who stood for sound principles were told that they had nothing constructive to offer. If they did not favor more paper money or more silver, what did they favor? And if they had nothing better to propose than to work out of the situation by the ordinary methods of industry, economy and individual adaptation to the conditions, they had better subside. Advice of that kind was held to be very commonplace and uninspiring.

Situation in 1861.

When Salmon P. Chase assumed the duties of Secretary of the Treasury, March 4, 1861, he found a very difficult situation confronting him. The Treasury was empty, revenues were running much below current ordinary expenses, the country was on the verge of civil war, financial and general business conditions were greatly disturbed and the public mind was in a state of wild confusion and alarm.

Revenues had been below expenditures in every year since 1857, the deficits having been met by floating obligations of various kinds, and Government credit was at low ebb. In September, 1860, Howell Cobb, Secretary of the Treasury, invited bids on $10,000,000 15-year 6 per cent bonds and accepted offers on about $7,000,000, but only one per cent had been paid on them when the election of Abraham Lincoln to the Presidency, in November, and the immediate threat of secession which followed, paralyzed the money markets, and most of the subscribers withdrew their tenders, forfeiting their advance payment. In December Cobb made another attempt to raise money, this time on short Treasury notes, and accepted offers of $1,831,000, ranging from 10 to 12 per cent interest. He resigned the same month to cast in his fortunes with the State of Georgia, which was seceding. He was succeeded by John F. Thompson of Maryland, who held office for only a few weeks and was succeeded in turn by John A. Dix, of New York. Dix had the confidence of New York bankers and was able to borrow $8,000,000 on notes at about 6½ per cent. The Southern Confederacy was formed February 4, 1861.

Chase had been a prominent lawyer and political leader in Ohio. He had served a term in the United States Senate, two terms as Governor of Ohio, and was a prominent candidate for the Republican nomination for the Presidency against Abraham Lincoln. He was a man of high qualifications as a lawyer, and of unquestioned integrity, but had no special qualifications for the post of Secretary of the Treasury. He was not pre-disposed toward paper money; on the contrary, he had definite opinions in opposition to it, particularly against bank issues, but he shared to some extent the popular suspicion of Wall Street bankers, or considered it politic to keep them at a distance.

The First War Loans.

Nevertheless, circumstances compelled him to look to Wall Street for help. It was impossible to borrow money abroad, and New York was the financial metropolis of the country. Congress was convened in extra session, and on July 17 and August 5, 1861, passed loan bills authorizing the Secretary to borrow $250,000,000 on three-year Treasury notes, drawing 7.30 per cent interest, or 20-year bonds drawing 7 per cent. It also authorized the issue in lieu of a part of the above of $50,000,000 in non-interest-bearing notes, to be paid out for salaries or other dues of the United States. These "demand notes" as they were called, were the first of the paper money issues, but they were not what came to be known as the "greenbacks." They were not legal tender and they were receivable for all dues to the Government, and at first were redeemed in coin on demand.

Armed with this authority, Secretary Chase came to New York, and met the Clearing House bankers together with representatives of the associated banks of Boston and Philadelphia, at a meeting which had been arranged on August 9. The disastrous battle of Bull Run had occurred on July 21, and the Secretary came to New York by way of Annapolis because the city of Baltimore was practically in the hands of the Confederates. Evidently those were trying days. The Secretary wished to raise $50,000,000 for immediate use and to arrange for the distribution of bonds to the public. The bankers responded patriotically and courageously. Moses Taylor, President of the City Bank, which later became the National City Bank, was Chairman of the Loan Committee of the New York Clearing House, and after a conference in the Committee and with the representatives of the Boston and Philadelphia Clearing Houses, he gave the reply which has become historic:

"Mr. Secretary, we have decided to subscribe for the $50,000,000 of United States securities you have offered, and to place the amount at your disposal so that you can begin drawing against it tomorrow morning."

This $50,000,000 was taken in the three-year 7.30 notes, and the Banks also entered into a tentative agreement to take $50,000,000 more on October 15, and a third $50,000,000 on

December 15. These were very large sums for that time, as the total coin reserves of all the banks of the three cities were only $63,000,000. Those of the New York banks were about $49,000,000. The understanding as to the second and third lots of notes was put in the form of an option to the Banks, and they were to offer the notes or bonds to the public. The Secretary of the Treasury was to cooperate in the sale by establishing agencies in other parts of the country. With these arrangements the public offerings began.

The sales throughout the country through the Secretary's agencies were so small that after a couple of months the agencies were discontinued. The general public was not yet worked up to the point or accustomed to the idea of subscribing to Government securities. The Banks of the three cities, however, pushed sales with sufficient success to be able to take the second $50,000,000 on October 15, and to take the third lot a month ahead of time, on November 16, instead of on December 15, as originally planned. They elected to take the third $50,000,000 in 7 per cent 20-year bonds, instead of 3-year notes.

Disagreements Between the Secretary and Bankers.

By this time disagreements had arisen between Secretary Chase and the associated bankers over questions of policy which in the opinion of the bankers seriously affected their ability to go on financing the Treasury by the plan they were pursuing.

They urged that in order to continue the program indefinitely it was absolutely necessary to maintain their reserves. They must promptly replace all sums withdrawn from them, either by selling bonds to the public or by receiving back as deposits the sums which the Government disbursed in payment for war supplies. By way of aiding in the maintenance of their reserves they asked the Secretary, instead of transferring the proceeds of the loans in coin to the sub-treasuries, to maintain checking accounts with the banks and draw directly upon these accounts in making payments to contractors. They held that authority had been granted in the very act authorizing the loans, dated August 5, 1861, to do this. The provision alluded to granted authority for "The Secretary of the Treasury to deposit any of the moneys obtained on any of the loans now authorized by law, to the credit of the Treasurer of the United States in such solvent specie-paying banks as he might select." On the face of it the bankers would seem to have the best of the argument in law, as they certainly had on the merits of the case, but the Secretary said that he was familiar with the origin of the statute and knew that the intent was to allow moneys to be deposited or collected in banks on their way to the Treasury but did not contemplate checking accounts.

The bankers were very much disappointed over this decision. Mr. George S. Coe, of the American Exchange Bank, who was an active participant in these events, afterward wrote an account of them which appeared in the "Bankers' Magazine" of January, 1876, in which upon this action he says:

To draw from the Banks in coin the large sums involved in these loans, and to transfer them to the Treasury, thence to be widely scattered over the country at a moment when war had excited fear and distrust, was to be pulling out continually the foundations upon which the whole structure rested. And inasmuch as this money was loaned to the government, and was in no sense a trust reposed in the Banks, there appeared to them no reason why it should not be drawn by checks in favor of government contractors and creditors, who would require to exchange them for other values in commerce and trade, through the process of the clearing-house. And this consideration was greatly strengthened by the fact, that these advances were made, and the money publicly disbursed, a long time before the treasury notes were ready for delivery to the Banks which had paid for them. . . . It soon became manifest that, in consenting to have their hands tied and their most efficient powers restricted, and in allowing their coin reserves to be wasted by pouring them out upon the community in a manner so unnecessary and exceptional, the Banks deprived themselves and the government of the ability of long continuing, as they otherwise could have done, to negotiate the National loans upon a specie standard.

This first great error, if it did not create a necessity for the legal-tender notes, it certainly precipitated the adoption of that most unhappy expedient, and thereby committed the nation at an earlier day to the most expensive of all methods of financiering.

Another important question related to the so-called demand notes, of which $50,000,000 had been authorized. The bankers urged that these notes if placed in circulation would inevitably take the place of coin or bank notes and have an unfavorable effect upon their reserves in coin. Following is a brief quotation from Mr. Coe's statement upon this phase of the situation:

A very small amount had been emitted. The Treasury was empty of coin to redeem them, and could only be replenished by the proceeds of the bank loans. It was evident to the bank officers that they could not sustain coin payments, if the transfers from their vaults to that of the Treasury were subject to be intercepted and absorbed by these notes of government. Nor could the Banks receive them upon deposit from the public as money, while they were responding to the government and to their own dealers in coin. It was an inflation of the currency in the form most embarrassing to the enterprise they had commenced. Accordingly, the Secretary was urgently solicited to refrain from exercising the discretionary powers given him of creating the Treasury currency, until all other means were exhausted.

Mr. Coe comments upon the final outcome as follows:

In the meantime the 7-30 notes taken by the Banks had been purchased by the people to the extent of some fifty millions, notwithstanding a prolonged and vexatious delay in issuing them by the Treasury Department. The popular feeling was all that could have been desired for continuing that method of distribution. It may be confidently affirmed, that had the Banks been permitted to exercise their own methods of exchanging the bonds for the varied products of industry required by the government, they could have continued their advances in sums of fifty millions for an indefinite period, and until the available resources of the people had been all gathered in. It is to be borne in mind that these resources were all existing at home, and that the increased industry which the war excited was daily increasing new means for investment.

But at this time the demand notes were paid out freely by the Treasury, and began to appear as a cause of embarassment among the Banks which were pressed to receive them upon deposit; and while they could not decline them without diminishing public confidence in the government credit, they could not give them currency without impairing their own specie strength. In fact, the notes became at once a subsitute for coin withdrawn from circulation, and their emission expressed a purpose of resorting to government paper issues to carry on the war. So soon as these issues thus appeared, the reflux of coin to the Banks at once sensibly diminished. During three weeks from the 7th December, the reserve of the Banks in New York fell to $29,357,712,—a loss of thirteen millions within that short

period: and on the 28th December, after conference with the Secretary, in which he still adhered to the views before expressed, it was decided as expedient for the Banks to suspend specie payments.

It will be seen that Mr. Coe, an excellent authority, was of the opinion that if the Secretary had followed the advice given by the Bankers who were handling the loans, the suspension of specie payments and subsequent issues of government paper money might have been avoided. It is not possible to say positively that such would have been the case, but it is certain that the Secretary made a serious mistake in each instance. Unquestionably the effect of his actions was just what the Bankers predicted it would be.

Mr. E. G. Spaulding, member of Congress from Buffalo, was Chairman of the Sub-Committee on Loans of the Ways and Means Committee of the House at that time, and in that capacity prepared and reported the bill providing for the first legal tenders. After the war he prepared a book entitled "A History of the Legal Tender Paper Money Issued During the Great Rebellion," published in 1869, and in describing the conditions which led up to the legal tender acts he said:

The banks in New York, Boston and Philadelphia had, during the summer and fall of 1861, loaned to the government very nearly the sum of $150,000,000 in gold, which had so exhausted their resources that it was very difficult for many of them to pay the last installments due on the last loan of $50,000,000. These banks, at the commencement of the war, possessed a large part of the available gold in the country, but in paying over to the Treasurer the gold on these loans, and in the disbursement of the same to sustain the Army and Navy, it became so scattered that it could not, to any considerable extent, be re-loaned to the government, nor could it any longer be made available as a reserve for the banks.

There would have been some loss of reserves under any circumstances, and it is probable that the exciting political events had something to do with the losses which the Bank suffered. On November 8 Commodore Wilkes, of the United States frigate San Jacinto, took Messrs. Mason and Slidell, Confederate Commissioners to the British government, from the British mail steamer *Trent*. The British cabinet demanded the surrender of the Commissioners with an apology, and there was much anxiety over the affair, which undoubtedly accelerated the withdrawal of deposits from New York by the banks of the interior, as every period of alarm has done.

Moreover, the Secretary of the Treasury made other mistakes which contributed to the confusion into which financial affairs fell at this juncture. The country in the first two years of the war lacked vigorous and capable management of its finances as well as of its armies. Nothing of much consequence had been done as yet about increasing taxation, and efforts to enlist interest in the loans outside of New York, Boston and Philadelphia had been so feeble as to be almost a total failure.

Suspension of Specie Payments.

The suspension of specie payments by the banks of the three cities named meant that they had discontinued the redemption of their notes in gold or silver, also the payment of specie in ordinary transaction. The banks of other cities followed their example. All of these banks were organized under State charters, there being no national system at that time. The bank notes continued to circulate after the suspension, and in the case of well-known institutions, without much variation from gold in the neighborhood where issued, but a discount on bank notes at a distance from home was a common thing in those times. It was not the first time that the banks had suspended by common action; they had done so in 1857, and before that. Bank notes were the only money of the country, excepting gold and silver, and the latter when the banks suspended went out of circulation by being hoarded. In this instance the demand notes constituted a new form of paper money—Government paper—which remained in circulation.

The State Bank Currency.

The suspension of specie payments by the banks did not in itself necessitate a discontinuance of bond sales through the banks or a resort to Government paper money, but it changed the situation in some important respects. To go on as before it would have been necessary for the Treasury to receive payments for bonds in irredeemable bank notes, and this inevitably raised the question whether, if the war must be carried on with irredeemable paper, it had not better be government paper than bank paper. Much might have been said in favor of bank paper even in these circumstances; bankers have ways of stabilizing the value of their issues which are not at the command of government officials, and governments will hold banks to their obligations more strictly than they will perform their own obligations. There can be little doubt that if bank notes had continued to be the only paper currency specie payments would have been resumed long before they actually were.

Unfortunately, the state bank currency while a good currency in some of the states was very poor in others. Secretary Chase had come to Washington with the idea in his mind which eventuated in the national banking system—the idea of a national currency to be issued by local banks but made good without discount in every part of the country by being based on bonds of the national government, and he brought this plan forward in January, 1862. The leaders in Congress opposed it, for one reason because there was no time to develop a new banking system. Amid the confusion and paralysis of conflicting opinions the war expenses were growing daily with frightful rapidity and the Treasury must have immediate relief.

Secretary Chase held that he could not accept the current bank notes in payment for bonds, and apparently he was unable to sell bonds for specie. It looked, indeed, as though the jumping off place had been reached.

The First Legal Tenders.

Responsibility devolved upon the Sub-Committee of Ways and Means, and Mr. Spaulding and his associates, not readily but reluctantly, accepted the legal tender proposal as a temporary expedient until an adequate borrowing program could be developed. Mr. Spaulding reported a bill, which was adopted by the Ways and Means Committee, authorizing the issue of $150,000,000 of legal tender notes, of which $50,000,000 were to take the place of the demand notes.

An important feature of the proposed notes and of all the "greenbacks," as originally issued, was a provision allowing them to be funded at the will of the holder into 5-20 6 per cent bonds, the interest of which was payable semi-annually in coin. Unfortunately, this provision was afterward repealed; if it had remained in force it would have done much to sustain the value of the "greenbacks" and would have brought them to par many years earlier, without any further legislation. It was after this that the most serious depreciation occurred. Mr. Spaulding later pronounced the repeal of this privilege of conversion the worst mistake made in all the financial legislation of the war.

Secretary Chase accepted the proposed measure reluctantly in a letter which closed with the following paragraph:

> Regretting exceedingly that it is found necessary to resort to the measure of making fundable notes of the United States a legal tender, but heartily desiring to co-operate with the Committee in all measures to meet existing necessities in the mode most useful and least hurtful to general interest, I remain, with great respect, etc.

The conservative business element was startled by the bill, and many protests were uttered. The New York, Boston and Philadelphia Clearing Houses sent delegations to Washington to oppose the policy, Mr. Coe heading the New York delegation. The answer made to these protests was that there was no other way to provide means of payment for immediate use. The following letter, written by Mr. Spaulding to a friend in New York, indicates his own state of mind, and some of the language sounds quite familiar even at this time. The italics are Mr. Spaulding's:

> House of Representatives,
> Washington, Jan. 8, 1862.
>
> Isaac Sherman, Esq., New York.
>
> Dear Sir:—
>
> In reply to yours of the 4th instant I would say that the Treasury note bill for $100,000,000 agreed upon in Committee yesterday is a measure of *necessity* and not one of *choice*.
>
> You criticise matters very freely, and very likely you may be right in what you say.
>
> We will be out of means to pay the daily expenses in *about thirty days*, and the Committee do not see any other way to get along till we can get the tax bills ready, except to issue temporarily Treasury notes. Perhaps you can suggest some other mode of carrying on the Government for the next one hundred days. You do not pretend that any considerable amount of taxes can be collected for the next three months, even under your plan. It is much easier to *find fault* than it is to suggest *practicable means or measures*.
>
> We must have at least $100,000,000 during the next three months, or the Government must stop payment. With the navy and an army of 700,000 men in the field, we cannot say that we will *not pay*.
>
> I will thank you to suggest a better *practicable* mode of getting $100,000,000 of paying means during the next three months. I would be glad to adopt it, and the Committee would be glad to adopt it. Let us have *your specific plan* for this purpose—one that will produce the money—and we will be very much obliged to you. In haste
>
> Yours truly,
>
> E. G. Spaulding.
>
> P.S.—I am as inpatient as you can be for an *early* and *successful* advance of the army, so important at this time to sustain the *credit* of the Government. Will it be done? You are just as well informed on that subject as any of us. I say to you privately that I could find fault more loudly than you do, but I will not do that without being able to suggest a *practicable remedy;* and I might say many things to you, personally, that I might not put on paper.
>
> Confidentially yours,
>
> E. G. S.

The inveterate antagonism to banks and the moneyed class appeared in the debate. Professor Dewey's Financial History of the United States says that "there was popular opposition to selling bonds below par," and that "banks were referred to as 'usurers' and 'note-shavers;' 'shinning' by the Government through Wall street was strongly condemned; and the Government was advised to "nerve up." "Why, then, go into the street at all to borrow money?" I prefer to assert the power and dignity of the Government by the issue of its own notes," etc.

There was not wanting vigorous opposition in Congress. Justin S. Morrill, of Vermont, already a man of high rank in the House, and destined for a long and distinguished career in both houses, said:

> If it be a war measure, it is a measure which will be of greater advantage to the enemy. I would as soon provide Chinese wooden guns for the army as paper money alone for the army. It will be a breach of public faith. It will injure creditors; it will increase prices; it will increase many fold the cost of the war.

Roscoe Conkling, then a member of the House, said in part:

> What is the necessity which prevents adherence to the old and approved methods of raising money? The arguments must be two-fold: First, that the people will be better ready at some other time than the present to pay what, in the end, they must pay, with interest; and second, that necessary and legitimate taxation will be unpopular, and bring denunciation upon those who vote it. Sir, I take issue upon both propositions. . . . We are able to pay now, and we never can pay better than now.
>
> There is one thing about the proposed banking scheme, and about the bill before us, intended probably to attract votes, which seems of very questionable policy and very doubtful ethics. I mean hostility to the existing banks of the country. And inasmuch as I own not a farthing in the stock of any bank, and have not the slightest connection with one, perhaps a word in behalf of banks in loyal States will be borne with from me.
>
> The present troubles, or rather their own patriotic action, have broken the banks; for every commercial man in this House knows that the banks were never stronger than when the Secretary of the Treasury appealed to them for loans. They allowed the Government to carry off their specie, their capital from their vaults, and if that did not break them, they at all events might have adopted a policy which would have saved them. But they had to suspend, and the design of this bill would seem to be to prevent their resumption of specie payment. At all events, it is obviously the policy in some quarters to preach a crusade against the present banks, and array prejudices and votes on that issue. . .
>
> Every agent, attorney, treasurer, trustee, guardian, executor, administrator, consignee, commission merchant, and every debtor of a fiduciary character who has received for others money, hard money, worth a hundred cents in the dollar, will forever release himself from liability by buying up for that knavish purpose, at its depreciated value, the spurious currency which we shall have put afloat. Everybody will do it except those who are more honest than the American Congress advises them to be. Think of savings banks entrusted with enormous aggregates of the pittances of the poor, the hungry, and the homeless, the stranger, the needle-woman, the widow and the orphan, and we are arranging for a robbery of ten, if not fifty, per cent. of the entire amount, and that by a contrivance so new as never to have been discovered under the administration of Monroe Edwards or James Buchanan.
>
> To reverse the picture; after the act shall have gone into effect, honest men undertake transactions based upon the spurious

tender at its then value. By and by comes a repeal, and they are driven to ruin in multitudes by the inevitable loss incident to a return to metallic currency. . .

The main contest over the bill was upon the legal tender clause, and after that was adopted its passage was certain. After the vote on this question the Washington correspondent of the Albany "Evening Journal" sent a dispatch to his paper from which the following is an extract:

Washington, February 6, 1862.

This has been an exciting day in the House. A fierce battle has been waged against the 'legal tender' Treasury notes. But, as I think the right has prevailed, and by a vote of 95 to 59—a much stronger force than was counted upon, the real argument was reduced to a very small compass.

It was not strange that members of the same political family, differed on a question of really doubtful expediency. And but for the necessities of Government, I doubt whether the 'legal tender' principle would have received a dozen votes in the House. It is a new financial principle, and its workings may result in some, if not all the evils predicted from it. Nevertheless, as Treasury Notes *had* to be resorted to, the common sense of the House, as well as the common sense of the people, determined that they should be made as near the practical value of gold as possible. Mr. Spalding, of Erie, has had to assume the laboring oar in this financial expedient. He had but a bare majority of his Committee with him at the outset; and, when the Secretary of the Treasury hesitated, as he did for several days, the Committee became equally divided. And yet, the measure carried a large majority of the House with it—a fact as gratifying to Mr. S. as it is complimentary to his financial acumen.

The country breathes freer! The legal tender bill has passed the House, and national bankruptcy is averted.

The bill in its final form, requiring customs duties and interest on the public debt to be paid in gold, became a law on February 25, 1862.

In the meantime authority to issue $10,000,000 more of demand notes had been granted, raising these to $60,000,000, and in March these were all made legal tender.

Further Issues of the Greenbacks.

On the 7th of June following, Secretary Chase sent a communication to Congress stating that the demands upon the Treasury made it necessary for him to ask for authority to issue another $150,000,000 of legal tender notes, and ten days later a bill to this effect was reported and Mr. Spaulding opened the discussion. In his speech he said:

"I trust that there will be no necessity for any considerable issue of new notes; but to guard against possible contingencies, I am willing to confer large powers upon the Secretary, believing that he will exercise the power wisely, patriotically, and for the best interests of the country."

Up to this time the legal tenders had not fallen very far below par, the average of daily gold quotations in June showing them at 94. Gold and silver had disappeared from circulation, business was active, prices were rising, and these influences helped to absorb the notes. There was encouragement to issue more, and the bill passed the House by a vote of 76 to 47 and the Senate by 22 to 13.

In the following December, Secretary Chase asked for still more legal tenders, together with large authority for negotiating loans, and also submitted in more developed form his plan for a National banking system which was enacted at the session then beginning.

Up to this time there had been very little war taxation. Professor Dewey* says that "in the development of a tax system appropriate to the events and conditions of the war, Chase took no leadership. He believed that the war demanded no extraordinary taxation beyond what was necessary to pay the interest on the new loans created, and to extinguish annually a small amount of the new debt."

Moreover he did not push bond sales. The act of February 25, 1862, had authorized him to sell $500,000,000 of 5-20 6 per cent bonds "at the market value thereof," but the Secretary held that "market value" meant whatever they would bring above par, and that he was not authorized to sell below par. The total sales to December were only about $25,000,000.

Other Borrowing.

Congress had authorized two forms of short time interest-bearing indebtedness which helped the situation. One of these authorized the Secretary to receive deposits of money in sums not less than $100 at any office of the Treasury at 5 per cent interest, depositors to have the privilege of withdrawing it at any time after thirty days by giving ten days' notice. This provision proved popular, and the interest rate was raised to 6 per cent. These deposits reached at one time $120,000,000. The other form was a certificate of indebtedness, in effect a promissory note, which the Secretary was authorized to issue to creditors who were willing to receive them in settlement of audited accounts, running one year at 6 per cent. These certificates were issued in the form of a bank note and passed current as money to some extent. The highest amount of these notes outstanding at any time was $238,000,000.

By means of these expedients and the legal tenders the Treasury made its way through the year 1862, but no adequate plan for raising from the people the money for carrying on the war had been adopted. The importance of economizing in individual expenditures, of restricting their own purchases and of turning purchasing power over to the Government had not been emphasized.

By the close of the year the Treasury was in close straits. A resolution passed the House calling upon the Secretary to explain why requisitions of paymasters in the army for funds to pay the soldiers were not promptly filled. On January 7, 1863, the Secretary in a letter to the Finance Committee of the Senate stated that the amount then due the army and navy was about $60,000,000 and asked that provision be made for immediate payment.

Mr. Spaulding was still faithful, and opened the debate with a speech upon the situation. He said:

We have the monster rebellion by the ears, like the backwoodsman who held the ferocious wolf—if we let go, he will destroy us, we must therefore hold on till we subdue him. . . .;

"I have an aversion to any considerable further issue of legal notes, and can only consent to it as an imperative necessity. I think too large an issue will tend to inflate prices but I do not see how it can be avoided. I do not see how the soldiers are to be paid, or how the Government can be carried on, in any other way."

* Financial History of the United States, by Professor Davis R. Dewey, Massachusetts Institute of Technology.

He argued that there was still an actual shortage of currency to handle the business of the country, saying:

"What causes this scarcity of currency? In the first place, as before stated, gold and silver no longer circulate as currency within the United States. Gold is only required to settle foreign balances, pay custom duties and interest on the public debt. It is bought and sold for these purposes as a commodity, but it does not circulate as money in ordinary business operations. Its place is supplied by bank bills and legal tender notes. In the next place, the large increase of business suddenly created by such a gigantic war as we are now prosecuting, has largely increased the demand for a larger volume of currency than was ever required before."

He made a reference to the excellent bank note currency of New England as follows:

It is well known that all the New England and New York country banks redeem their bills now at the Suffolk Bank, Boston, and the Metropolitan Bank, New York, precisely as they did before the suspension of specie payments. This system checks any tendency to over issue, and is a touchstone by which to test daily the demand for bank bills. If they are not needed for legitimate business, they flow in rapidly to the redeeming banks, but if they are wanted they stay out. This test is unerring. The daily redemptions, for months past, have not been half what they were when the volume of bank circulation was less by a third than it is at this time.

Congress met this emergency by rushing through a joint resolution authorizing the immediate issue of $100,000,000 more legal tenders, the same to be a part of any amount that might be provided for by future legislation. This referred to a loan bill then pending which carried provision for $150,000,000 legal tenders and became a law March 3, 1863, raising the total amount of greenbacks authorized (including those intended to take place of demand notes) to $450,000,000.

President Lincoln, upon signing the above joint resolution, sent a message to Congress in which he said:

"While giving this approval, however, I think it my duty to express my sincere regret that it has been found necessary to authorize so large an additional issue of United States notes, when this circulation and that of the suspended banks together have become already so redundant as to increase prices beyond real values, thereby augmenting the cost of living to the injury of labor, and the cost of supplies to the injury of the whole country."

This $150,000,000 was the last of the issues of non-interest bearing legal tender notes. Other notes carrying the legal tender quality were issued, but they all bore interest at 5 or 6 per cent. They entered to some extent into circulation until interest accumulated on them, when they were usually withheld. They took the place of money, however, in bank reserves and helped to inflate the currency.

Permanent Financing.

The expenses of the war were still mounting higher, but from the passage of the act of March 3, 1863, the methods of raising money were more effective. This act made clear the authority to sell bonds at the market rate, even below par. Jay Cooke was appointed General Agent of the Treasury and organized an aggressive selling campaign on a commission basis, receiving three-eighths of one per cent. He appointed 2,500 sub-agents, advertised extensively and canvassed the country, with the result that the Secretary was able to report in December the sale of nearly $400,000,000 of bonds. Taxation also by this time had begun to produce results. The country at last was getting down to business.

Secretary Chase in his report of December, 1863, reviewed and justified the issue of greenbacks in the following discussion:

"The limit prescribed by law to the issue of United States notes has been reached, and the Secretary thinks it clearly inexpedient to increase the amount. When circulation exceeds the legitimate requirements for real payments and exchanges, no addition to its volume will increase its value. On the contrary, such addition tends inevitably to depreciation; and depreciation, if addition be continued, will find its only practical limit in the utter worthlessness of the augmented mass.

"When Congress authorized the creation of debt, to a certain extent, in the form of United States notes, and impressed on these notes the qualities of a circulation medium, its action was justified by the disappearance of coin in consequence of the suspension of specie payments; by the necessity of providing a medium in which taxes could be collected, loans received, and payments made; and by the obvious expediency of providing that medium in the form of national issues instead of resorting to the paper of banks. Under the circumstances its action was wise and necessary; but it was equally wise and necessary to limit the extent of the issues by the necessity which demanded them. They were wanted to fill the vacuum caused by the disappearance of coin and to supply the additional demands created by the increased number and variety of money payments. Congress believed that four hundred millions would suffice for these purposes, and therefore limited issues to that sum.

"The Secretary proposes no change of this limitation, and places no reliance, therefore, on any increase of resources from increase of circulation. Additional loans in this mode would, indeed, almost certainly prove illusory for diminished value could hardly fail to neutralize increased amount.

"Sufficient circulation having been already provided, the government must now borrow like any other employer of capital temporarily requiring more than income will supply, and rely for the credit which will secure advantageous loans upon good faith, industrial activity, accumulated though not immediately available capital, and satisfactory provision for punctual payment of accruing interest and utimate reimbursement of principal."

It will be seen that he justified the issues wholly on the theory that they were necessary to supply the country with a medium of exchange after the bank notes had become irredeemable and gold and silver had disappeared from circulation. He does not claim that they were an economical substitute for interest-bearing bonds, or even that they were necessary for any other reason than that they afforded a currency by means of which the Treasury could collect the proceeds of tax levies and loans and the business of the country could be carried on. In the last paragraph of the quotation he distinctly repudiates all of the arguments usually offered in favor of government issues of paper money.

Did the Greenbacks Save the Union?

The total expenditures of the Government during the four fiscal years beginning July 1, 1861, and ending June 30, 1865, were $3,348,369,000. The war began before July 1, 1861, and the expenditures on its account continued much beyond June 30, 1865, but if we compare the foregoing figures of expenditures during the four years with the total authorized issue of demand notes and greenbacks, $460,000,000, it will be seen how relatively small a proportion of the war costs was defrayed by means of these government notes.

The notes were all issued during the first two years of the war when expenditures were low in comparison with what they became later. The embarrassment of the Government in those first years was not due to inability on the part of the country to raise the funds required. The country

was not so much better off after two years of war, but the Government at last had an effectual policy. The Secretary of the Treasury was a patriotic and in some respects able man, but he was not an experienced financier, and the difficulties were greatly aggravated by the fact that the country was without an adequate banking system, national in scope.

The legal tender notes not only did not save money to the Government but by increasing the cost of all its purchases they undoubtedly compelled the issue of more bonds than would have been necessary if legal tender notes had not been resorted to at all. They are not, however, properly chargeable with all of the inflation which occurred. The National bank act, which went into effect in 1863, brought about further issues of paper money which although "good" in the sense of being well secured and redeemable, had the same effect upon prices as the legal tender issues.

The depreciation of the currency, measured in gold, is seen in the following table, which gives by months, 1862-1865, the average gold price of one hundred dollars in currency in New York:

MONTH	1862	1863	1864	1865
January	$98	$69	$64	$46
February	97	62	63	49
March	98	65	61	57
April	98	66	58	67
May	97	67	57	74
June	94	69	47	71
July	87	77	39	70
August	87	79	39	70
September	84	74	45	69
October	78	68	48	69
November	76	68	43	68
December	76	66	44	68

Professor Dewey says that "the total effect of paper issues in increasing the cost of the war has been estimated at between $528,000,000 and $600,000,000," and adds that "even this large amount is small when compared with the burdens which inflated prices placed upon the people in the ordinary relations of trade and industry."

Professor Dewey goes on to say that "true to the general law that wages of labor do not respond to economic forces as promptly as prices of commodities, statistical inquiry shows that the depreciated value of the money medium during the Civil War was not reflected in an equal measure by an increase of money wages." The tables of wages and prices compiled by Professor R. P. Falkner, of the University of Pennsylvania, for the Aldrich report, showed percentages of increases over 1860 figures as follows:

YEAR	PRICES	MONEY WAGES
1860	100.0	100.0
1861	100.6	100.8
1862	117.8	102.9
1863	148.6	110.5
1864	190.5	125.6
1865	216.8	143.1

Mr. Spaulding in his book comments upon the effects of inflation as follows:

"The withdrawal of such a larger number of youthful laboring men into a vast army of unproductive labor, and the mistake made in the over-issue of paper currency, so inflated prices as to materially increase the expenses of the war. It also embarrassed the people engaged in legitimate pursuits; laborers struck for higher wages, and the price of commodities greatly increased, causing considerable difficulty in keeping up the productive energies of the country, especially in establishments where large gangs of men are employed."

Paper Money Prosperity.

While this inflation was going on, the country was apparently prosperous. Prices were advancing, business was active, enterprise was abounding as is always the case when property will sell for more money each month than it would bring a month before. Such is not a real or substantial prosperity, but it is always deceptive at the time, and is the secret of paper money popularity. As usual under such conditions the people went heavily into debt on the strength of these apparent values, and the whole financial structure was weakened. After the war was over public men like Mr. Spaulding, who had regarded the paper money issues as temporary and considered the faith of the country pledged to their redemption at par, began to take steps for so doing, but of course raising the value of the paper currency from 44 cents in gold in December, 1864, to 100 cents gold, meant that the value of all property, stated in terms of currency, which was the common medium in which prices were made, must shrink in corresponding ratio, while on the other hand the indebtedness of property owners did not shrink at all. This was the other side of the fictitious prosperity, of which Roscoe Conkling and others had given warning.

As soon as the logic of the situation was realized, there arose a great protest against any further efforts to bring the paper money to par, and but for the firm stand of President Grant this opposition would have been successful. As it was, resumption was delayed until 1879, and the complete retirement of the notes was defeated. Nevertheless, with the volume of notes definitely restricted, and the country growing, and looking eventually to resumption, an appreciation of the notes was inevitable and the effect upon property values in currency was very unfavorable. Moreover, with the return of the soldiers to industry and particularly to the farms, the opening of new lands by the extension of railways and an increasing tide of immigration, farm products fell to unremunerative prices. It was all laid by agitators to the efforts to resume specie payments.

Panic of 1873.

The culmination came in the panic of 1873, one of the worst the country had ever known, which left a trail of bankruptcies, and was followed by a long period of depression, lasting until the last vestige of difference between the paper dollar and the gold dollar disappeared on January 1, 1879. The newly built railways went into the hands of receivers, the late booming cities went into collapse, enterprise was dead, building operations were suspended, industry was stagnant, furnaces were cold, workmen walked the streets in vain for employment and mobs in Pitts-

burg and other centers caused the most serious disturbances growing out of industrial conditions ever known up to that time in this country. Foreclosure proceedings made the business of the sheriff among the most prosperous in the country. During that long drawn-out period of distress, the country was suffering in expiation of its violation of sound principles of finance, and it is not too much to say that the losses in those six months from the prostration of industry amounted to more than the direct costs of the war.

Following the resumption of gold payments there was a speedy revival of prosperity, which the Secretary of the Treasury, John Sherman, touched upon in his report to Congress in December, 1879, in part as follows:

"The specie standard, thus happily secured, has given an impetus to all kinds of business. Many industries, greatly depressed since the panic of 1873, have revived, while increased activity has been shown in all branches of production, trade, and commerce. Every preparation for resumption was accompanied with increased business and confidence, and its consummation has been followed by a revival of productive industry unexampled in our previous history."

With the country back on a gold basis, business men felt solid ground under their feet. They felt that liquidation at last was over, that inflation had been eliminated and that prices and values in this country were again related to the world's standard of value. Confidence was restored for the time being, although the heresies which still lurked in many minds and in the financial system itself were destined to yet cost the country dearly.

Lessons from the Civil War Experience.

The fallacy of supposing that a Government can save anything by using its non-interest bearing obligations as a medium of purchases, even by making them legal tender, is the most obvious lesson of the Civil War experience, but it is not the most important lesson. The most important warning is that the Government cannot be safely financed by simply creating credit facilities. The greenbacks were a form of credit and enabled the Government to enter the markets and make purchases required, and bank credit will do the same, but there are after-results which follow the expansion of credit by either of these methods.

These are simply facilities for making payments, and it is doubtless true that in some degree production is affected by the facilities for handling or paying for the products. If transportation facilities were lacking for moving wheat from Kansas wheat-growing there would be discouraged, but after all there is a limit to the influence of transportation facilities upon the wheat crop. When the population of Kansas has done its best at wheat-growing the addition of transportation facilities will not enlarge the crop. And so when the industrial forces of a country are already working to capacity the output cannot be increased by enlarging the credit facilities by which purchases are made.

Inflation is the result of allowing credit to be used without restraint in a competitive struggle for a limited supply of labor and materials. Some years ago Northern Pacific Railway stock was bid up to $1,000 per share because there was competition over a limited supply between buyers who had ample credit at their command. Something like that struggle is now going on in industry. Food production is as important as anything else, but the farms are losing labor at an alarming rate by reason of the attractions held out elsewhere. The railways have been seriously embarrassed by the loss of experienced labor to the war industries, and the industries generally, many of which are engaged upon war contracts, are now suffering from a loss of labor to the shipyards. The President of the Pressed Steel Car Company in his report to stockholders a few days ago stated that that company's labor turn-over in the last year was 300 per cent. and that wages had increased 50 per cent, while efficiency had decreased 50 per cent. That the cost of living has been advancing along with wages, possibly even faster, is only another symptom of conditions. If labor continues to leave the farms the cost of living will continue to go higher.

The Alternative to Inflation.

The real want of the time is for man-power and the things which man-power can produce. With a shortage of labor already existing, the increasing demand for things must be met by organizing labor more efficiently, by greater use of labor-saving methods and by transferring labor from non-essential or less-essential employments to the work which is of vital importance. This is the aim of the policy which has been adopted with the railroads. The highest possible efficiency is sought in their operations, and their services are to be available first for the essential needs. The same end must be accomplished in the industries generally. Contracts should be distributed with a view to utilizing existing industrial organizations and equipment most effectively and of diverting labor from non-essential production. The industrial managers of the country are eager and impatient to know how they can use their plants to forward the plans of the Government.

It has been asked what is the alternative to continued expansion of credit. The answer is in a resolute substitution of war work for non-essential industry, instead of attempting to do the war work in addition to supplying all the private demands which the public is accustomed to make. This shift cannot be accomplished without leadership or without compulsion, and without it we will neither win the war nor escape a state of inflation from which the consequences will be disastrous.

By one route or another we must come to this substitution at last. If we supply the Government with bank-credit as a means of making its

purchases it will indeed be able to make them, but this new credit when put into circulation and added to the existing volume of purchasing facilities will force up prices until a portion of the demand is eliminated and a new equilibrium between demand and supply is established. Thus the same degree of curtailment in private consumption will have been arrived at by a blind, automatic, competitive struggle as might have been accomplished by intelligent self-restraint or authoritative management.

Inflation and Deflation.

Roughly speaking it is said that the debtor class will gain by inflation and the creditor class lose, and it is usually assumed that the debtor class is composed of poor people and the creditor class of rich people, but this classification is widely erroneous. The owners of property, the employers of labor and operators of business belong with the debtors rather than with the creditors, so far as the effects of rising prices are concerned. What they own and what they sell is not ordinarily fixed in price, although that is true of most public utilities. The great bulk of private property usually responds in nominal values to changes in the prices of the products. The laborer for fixed wages is in the creditor rather than the debtor class, and while wages in some lines follow more or less closely the general state of business activity, in many instances they lag seriously behind advances in the cost of living. The salaried class and all who for any reason are least independent and able to help themselves are sufferers by rising prices.

Along with these is the great body of people who are not in business but who have saved something for old age or a rainy day, and have it out at interest, or in a bank, or who have made provision for dependents by carrying life insurance. If it is assumed that the present level of prices and cost of living is permanent, then it must be allowed that since 1914 nearly one-half the value of all such savings have been wiped out as with a sponge! Do we realize what is taking place, and are we content for the sake of maintaining for a time the useless effort to do business as usual to allow this process to go on?

But it will be said that this situation is only temporary, that after the war prices will subside and those losses which now appear on paper will be recovered. Very well, suppose we take that horn of the dilemma, and face the task of reducing wages to the pre-war level, and of paying the debts and taxes inherited from the war out of the pre-war profits and earnings. Is that outlook so much more encouraging as to reconcile us to going still further on the path which must be retraced?

There are many uncertainties about the future but one thing is certain, and that is that the gravest dangers will be connected with the inflation of wages, prices and indebtedness. It is granted that a degree of inflation is unavoidable, and a degree great enough to cause serious concern has already occurred. With another great loan pending more is unavoidable and the end is not in sight, but it is of the highest importance that the tendencies shall be understood and that the remedy shall be applied so far as possible. That remedy lies in concentrating the energies and resources of the country upon necessary work to the exclusion of work which is not necessary either to the prosecution of the war or to sustain the health and strength of the people, and in finding purchasing power for the Government by conserving and transferring to it the purchasing power of the people.

The Gold Reserve.

It may be not out of place to utter a word of caution about the value and use of the great gold reserve which is steadily growing in the vaults of the Federal reserve banks. The amendments to the reserve act adopted last year were for the purpose of aiding in this accumulation of gold, and they were generally supported on the ground that larger reserves would strengthen the system against emergency demands and inspire confidence in its stability. We approved of them for this reason.

It will be a mistake, however, to assume that with all of the gold of the country gathered into the reserve banks it will be just as safe to run up the liabilities until the reserve is down to 40 per cent, as it would have been with the member banks still holding important amounts, as before. The eggs are being gathered into one basket and the basket should be guarded with great care.

The main advantage in gathering together a great gold reserve in these banks of issue is in the power which is thus created to protect all of the local banks of the country against any possible alarm among their depositors. Gold in the possession of the reserve banks gains 150 per cent in efficiency by reason of the note-issuing powers of these banks, not to speak of the advantage derived from having the reserves concentrated in practically one store.

This is the great purpose gained by the concentration of gold in the reserve banks. It gives security to the banks in their relations with depositors, and although that by no means was the only object in forming the reserve system it was the first object.

It cannot be properly said of these gold holdings that such or such a percentage is sufficient to maintain the notes at par, as though this was the only consideration. There are two other considerations: First, to maintain the reserve capacity to issue at any time great quantities of notes to support the member banks against calls upon them by depositors, their own re-

serves being now unimportant; and, second, it is the duty of the reserve banks to guard the country against inflation.

One of the ablest editorial writers of the country illustrates the confusion of ideas which prevails on the subject by saying that "our trouble is less with an inflation of capital or credit than with the inflation of prices due to the increase of wages." The increase of wages and prices is precisely the form in which an inflation of credit or money works out its effects. Moreover, credit inflation is not dependent upon whether or not the collateral is good or the obligations certain to be paid in gold. If an attempt is made to use a greatly increased amount of credit or money, without any corresponding increase in the supply of labor, the effect will be to create precisely the conditions described above.

War Finance Corporation.

The bill for a War Finance Corporation has been reported to the Senate favorably, with certain amendments touching the organization and emphasizing the exceptional conditions under which the authority thus granted is designed to be exercised. It is generally agreed that the time has come for the Government to have control over the investment market, with a view to preventing the absorption of capital and labor in enterprises which are now of secondary public importance, and no doubt there is need for the Government to provide special facilities for financing private enterprises which are engaged in war work or business vital to the general welfare. The plan of the War Finance Corporation is well adapted to these ends. It will be provided with a capital of $500,000,000, subscribed by the Government, and it will be authorized to issue its own obligations, running from one to five years, which may be sold to the public and the proceeds used to carry out the purpose in view.

We have had nothing but commendations for this part of the plan, but have deprecated the proposal to admit investment securities sold for the purpose of raising more or less permanent capital as the basis of loans and currency issues by the reserve banks. We have done so because we are sure there is no necessity for such action, and have misgivings that the grant of power will create strong pressure for its use, and tend to divert attention from the policy of general restraint upon private expenditures, which we believe to be the true one for this time.

So far as protection of savings banks is concerned we have stated that provision to pay their depositors, if there is any occasion for so doing, is not open to the objection raised against supplying money for industry, for if depositors want their money for the purpose of buying Government bonds all payments to them will come into the Treasury and can be returned to the reserve banks as deposits. It is only as loans are made in attempts to enlarge the volume of industry, at a time when by reason of natural limitations, it cannot be enlarged, that inflation occurs. Likewise, refunding operations make no demands upon labor or new capital, and therefore do not require resort to the reserve banks.

With a close control over the investment market to restrict the employment of capital to approved undertakings, there is no reason to doubt that there will be plenty of capital to meet the important demands contemplated in the bill. At any rate it is certain that no capital can be created by borrowing of the reserve banks at a time when the working forces of the country are already employed to the limit. The point has been reached then when the relief must come by another method —the method referred to by a member of the Federal Reserve Board in a recent address, in the following language:

> The question which I believe, in view of this situation, the country must soon face, is whether it will be the part of financial prudence for us to attempt to finance our government loans by an expansion of banking credit with accompanying inflation of prices, or whether it will be better, however drastic the steps necessary to accomplish this result may be, to pursue the course of converting the potential savings fund of the nation into an actual savings fund of sufficient magnitude to absorb the loans of the government as *savings loans.**

The Federal Reserve Board as a body has repeatedly expressed itself in a similar manner.

The pending bill seems likely to become a law without important changes, and will doubtless be administered with great discretion. Our attitude toward the questionable feature has been prompted by apprehension that the public would interpret the measure as providing for expansion, and proceed to manage its private affairs in such manner that the authorities might be compelled finally by resulting conditions to use the new powers to a degree which at the outset they do not contemplate.

The interpretation which at least a portion of the public places upon the measure was stated by the market reporter of the *Wall Street Journal* after it had been reported to the Senate, as follows:

> The economist who argued that eggs now selling at 60 cents a dozen would sell at $1.50 when the War Finance Bill became a law gave an illustration which the public understands. He may not be exactly right on figures but the financial district sides with him in his argument. It follows that with commodity prices higher many other things which money can buy, stocks included, may sell higher.

This cheerful view is not confined to the stock market, and probably there are more who hold it than there are who understand that to whatever extent the act has influence upon industrial conditions it will increase the cost of the war and the amount which the Government must raise by taxation and loans.

* Address of Dr. A. C. Miller before the American Academy of Political Science, Philadelphia, November, 1917.

The Money Market.

The money market has shown but little change during the past month. Time loans are on a 6 per cent. basis, although a few are made at 5¾. The large banks are out of the commercial paper market, but a considerable volume of paper is handled the country over. The call rate in this city has ranged from 3 to 6 per cent., and been nearer the latter figure most of the time. There is no reason in sight for expecting any important change, for the reserve banks can undoubtedly take care of any necessary demands and the Government's necessities will prevent any general relaxation. Banks are conservative and making commitments only as they are under obligations to take care of necessary business.

Some disposition is manifest to raise interest rates on deposits for the purpose of attracting deposits, and the situation raises anew the old question whether a sliding scale on deposits, automatically related to Federal reserve rates, or some other standard, would not be better than the flat rate, but there is little reason to believe that a sliding scale with the general agreement necessary to sustain it could be made permanent in this country. There is a competitive situation not only as between banks of the same city but as between the banks of many cities, and the present does not seem to be a good time for disturbing the adjustment of rates which has been reached in the past. At present loaning rates are comparatively high, but this is following several years when they have been low, and it is probable that other years of low rates will follow the present situation. At this time it seems desirable that every tendency to inflation and to abnormal conditions should be avoided so far as possible. An increase of deposit rates if adopted generally in the centers will surely extend into all localities, and raise the general level of costs upon which the banking business is conducted. That in turn will increase the anxiety for earnings, and have an unfavorable effect upon the situation in many ways. The banks are carrying numerous subscribers to the Government loans at low rates, and if deposits cost more these loans will naturally come higher or be discouraged. The Government is the largest borrower at this time and if the cost of money is raised it will inevitably suffer. It would be unfortunate to have a general withdrawal of deposits from the banks for investment in the Government loans, but on the other hand it is not desirable to have rates upon deposits which will tend to keep new capital from going into the loans. It is a very inopportune time for the banks to enter into a competitive struggle for deposits. The effect would be greatly to aggravate and extend the evils already resulting from the competitive struggle over labor and raw materials.

The Federal Reserve Board has given out a statement expressing its concern over the movement, and giving cogent reasons for its disapproval. This prompt and appropriate action is likely to be generally accepted as conclusive upon the subject.

The volume of bank loans tends upward and this is not entirely accounted for by the purchases of Treasury Certificates. The reports of member banks to the Federal Reserve Board show that aside from loans upon or investments in United States securities, loans and investments on February 15 aggregated $10,026,-818,000, against 9,862,409,000 on February 8. These figures were for 670 banks on the latter date and 679 on the former. It is not a satisfactory showing, with a Government loan looming up in the near future, and doubtless the trying business conditions of the last three months are in large degree responsible. There is still a great amount of farm produce to be marketed, particularly in the middle west, where the railways have been unable to move it as promptly as usual and the amount of soft corn has caused the farmers to fatten more live stock and feed it longer than is customary. There is reason to expect a great loosening up in that quarter in the next few months.

Railway traffic conditions have greatly improved in the last month and business reports, are good from all quarters. Retail sales are large, and merchants have more trouble getting goods than in disposing of them. Price reduction sales since the first of the year have been smaller than usual, merchants holding that it is better to carry stock over than to run the risk of not being able to replace it.

The Northwestern National Bank of Minneapolis gives interesting figures upon the increase of time deposits in the state banks and trust companies of Minnesota, North Dakota, South Dakota and Montana. It is not safe to accept an increase in demand deposits as a showing of accumulations, for they are largely a result of loans made by the banks themselves, but time certificates of deposit in these states as the Northwestern Bank Review says, mainly represent savings of farmers. During the last year these interest-bearing funds together with the smaller sum held in the form of savings accounts in the four states increased over $50,-000,000, and the total is $360,000,000.

Government Finance.

Sales of Treasury certificates in February to the 23rd amounted to $896,806,500. Early in the month the Secretary appealed to the banks to subscribe more generally and suggested that they adopt the policy of taking weekly an amount equal to one per cent of their total resources, not to exceed in all ten per cent. The response falling below expectations he decided to raise the interest rate and offered $500,000,000 of the certificates, dated February 27th, and due May 28th, at 4½ per cent. In

repeating his request that the banks make regular provision for investment in the certificates the Secretary said:

It should be borne in mind, furthermore, that the program of setting aside 1% a week and subscribing 2% for each issue is a minimum program; that there must be some banks and trust companies which cannot meet even this program and others which can do much more than the minimum. Those banks and trust companies that can should of course take certificates in excess of the indicated minimum.

The advance to 4½ per cent on the certificates has been generally accepted as foreshadowing an advance in the rate upon the Third Liberty Loan, and the first and second issues have had an advance on the market of about one point in consequence.

Up to and including the 23rd, ordinary and special Treasury disbursements for February, including loans to foreign governments, aggregated $850,302,822.

The War Savings Campaign is coming along encouragingly. Receipts from stamp sales during the first twenty-three days of February aggregated $34,165,442, an average of nearly $1,500,000 for every day, including Sundays and holidays. The number of agencies for the sale of stamps is constantly increasing and the income should grow steadily larger throughout the year.

It is of interest in this connection that the total amount raised in the United Kingdom up to the finish of this year by the various methods directed especially to the small investor was £258,000,000, or approximately $1,000,000,000. It is of further interest to know that although all of these offerings pay higher rates of interest than savings bank deposits, the latter are greater now than at the beginning of the war. In line with this are reports from certain schools in the United States which have maintained a savings system for some years that although these schools have been vigorously pushing this sale of thrift stamps the regular savings have continued to increase. These facts prove what has been proved many times before, that the habit of saving grows by cultivation, and therein lies the promise of great benefits in years to come from the thrift campaign now being carried on.

There seems to be a prevalent idea in some parts of the country that the New York banks have had the best of the Treasury deposits arising from the Government loans, but this is a misconception. The principal disbursements of the Treasury are made by drafts on New York, and the amount of deposits kept here are not larger than necessary to properly handle the business. Although funds are transferred to this point they are being constantly paid out to the whole country, as the heavy balances against the New York Reserve Bank, and in favor of the other reserve banks in the Gold Settlement Fund, conclusively show. If it had not been for the transfer of paper from the New York bank to reserve banks of the interior, at the instance of the Federal Reserve Board, which has the whole situation under its eye, the equilibrium would have been seriously disturbed by drafts against New York.

The Third Liberty Loan Campaign will soon be on, and plans for making it more effective than any of the preceding ones are being carefully made. The interruption of industry during the winter of course has reduced earnings and accumulations from what otherwise they would have been, but some sections of the country, notably the richest agricultural districts, will be in better condition to subscribe liberally than ever before. The people are in good spirits, loyal to the Government, practically unanimous in supporting the position which the President has taken, and without doubt will respond liberally. They are willing to do whatever is necessary, and if they fail in any degree to do what they should it will be because they do not clearly understand what the conditions of such an unparalleled emergency require.

British Banks.

The reports of the annual meetings of British banks at which the business of 1917 was reviewed have been received during the past month. We gave a month ago the figures for the principal items of the Bank of England, which showed a moderate expansion of loans and deposits. The twenty-one principal banks show approximately $6,300,000,000 of deposits against $5,300,000,000 a year ago, $4,000,000,000 of loans against $2,890,000,000, and investments of $1,460,000,000 against $1,480,000,000 a year ago. It will be seen that there was a small reduction of investments, showing the policy of the banks not to load up with long time securities. The increase of loans is very considerable, and is partly in Treasury bills and partly in loans to the public to aid purchasers of government. All reported these loans as in process of satisfactory reduction, and the manager of the National Provincial Bank reported that of $70,000,000 granted on the last war loan, in March, 1917, 65 per cent. had been paid off. The London City and Midland, which had advanced $130,000,000, reported $70,000,000 paid off.

The banks all reported that for the first time since the war began it was unnecessary to charge off anything against the depreciation of security holdings, there having been no further decline during the past year.

A note of caution was frequently sounded against the inflation of credits and consequent inflation of prices and war borrowings. The Chairman of Barclays Bank, Limited, Mr. Goodenough, in his address to stockholders, said:

The increase in the amount of the current and deposit accounts points to inflation, and the statistics relating to the rise in prices show how important it is that the war finance should be so conducted as to avoid inflation as far as possible. The index figures which give the price of commodities and neces-

saries of life show that the continuous rise in prices corresponds step by step with the expansion of credit which has taken place since the commencement of the war. Each individual should make his subscription for National War Bonds both readily and with regularity, and by doing so will help to bring the war to an earlier conclusion, and also to keep down the prices which must otherwise continue to rise if the war has to be financed by methods which involve inflation of credit.

Sir Edward Holden dealt with this subject quite in detail a year ago. This year his address was largely devoted to a very clear and temperate analysis of German war finance, and an appreciative description of our Federal Reserve System.

Considerable discussion has been occasioned by the recent announcement of four great bank consolidations. The first one was the London and Provincial and London and Southwestern banks with combined deposits of nearly $370,000,000. Following this was the fusion of the National Provincial and the Union of London and Smith's, with combined deposits of $870,000,000, the London County and Westminster and Parr's, with deposits of practically $1,000,000,000 and finally the London County and Midland and London Joint Stock, with deposits of about $1,375,000,000.

It will be seen that these are immense institutions, the combining banks being themselves in nearly every instance the result of previous combinations. This movement to consolidation has been going on for years, and undoubtedly economic gains have been realized. The banking business of Great Britain, to the extent of 80 per cent. or more, is done by not over twenty institutions with their branches reaching into all localities. Evidently there is some public concern lest the movement go too far, for the Chancellor of the Exchequer some days ago announced in the House of Commons, in response to an inquiry, that, having consulted the President of the Board of Trade, he proposed to appoint a committee of bankers, merchants, and manufacturers, to consider and report to what extent they thought it desirable in the public interest to interfere in connection with recent amalgamations of banks in this country. The Chancellor explained that he did not express an opinion on the question of the principle involved, but considered that as the matter was of public importance an inquiry should be held. He expressed the hope that pending the report of the Committee any further schemes of amalgamation which might be in contemplation would not be proceeded with.

Parlimentary Inquiry on Expenditures.

The Parliamentary Committee appointed to conduct an inquiry into British Government expenditures has submitted a partial report and asked time in which to formulate further recommendations. In the opinion of the Committee the cost of the war is being largely increased by the expansion of bank credits, which occurs either by the direct purchase of Government obligations by the banks, or by borrowing from the banks by the public for the same purpose. It believes that there should be more drastic taxation directed in such manner as to affect the private expenditures of the people, avoiding an increase upon strict necessities, but accomplishing restraint in other directions. The report says in part:

Among the chief causes of the rise of prices had been the inflation of credits, the financing of the war by various expedients other than taxation and the raising of loans drawn from the savings of the people. The committee inclined to the conclusion that the increase of paper money had played somewhat a subordinate part in the rise of prices. In Russia notes were printed to make Government payments; here they were only printed for issue to the banks, who paid for them in exchange by presenting valid securities or in other ways.

Among other interesting features of this report is the statement that the bonus given to stabilize the price of bread at nine-pence (18 cents) for the four pound loaf is at the rate of £45,000,000 (about $220,000,000) per year, and the potato bonus is $25,000,000 per year.

The Bond Market.

Bond prices during the first week of February reflected the active advance in the stock market occasioned by the reported industrial strikes in Germany. The advance was sustained and indicated a fundamental change in the public mind concerning business conditions. Over-the-counter business was not large in volume but there were indications of a broadening demand from private investors and prices were well sustained. While the limited number of new issues now offered are in short term form, nevertheless the longer term seasoned issues are now attracting discriminating investors. The municipal market was quite active with a good inquiry for round blocks.

The second week of the month developed dullness in railway and corporation issues with a few exceptions, Hudson & Manhattan A 5's advancing three points. The municipal market continued active and a wider interest was evidenced in the bids submitted for new issues. The outstanding feature of the week was the sale of $20,000,000 New York City Three Months Revenue Bills on a 4.32% basis. They were bought for investment by the successful bidder and were not reoffered.

It has been interesting to note during the month an increasing interest by the larger investment houses in all public sales of municipals; the bidding has been more spirited than for several months past and in some cases from eight to ten bids have been received for the more attractive issues. The City of Chicago sold $560,000 4% Serial Bonds at 94.11, which compares with 93.67 which the city received for a similar issue of $346,000 last year.

An interest in Canadian municipals developed during the month and a Canadian syndicate sold $2,000,000 Province of Ontario Ten-Year 6's at par, and $1,000,000 Province of New Brunswick Ten-Year 6's on a 6½% basis. None of these bonds were sold in the United States.

Some of the larger corporation issues offered during the month include:

$1,000,000 Dallas Power & Light First Mortgage 7% Notes due Feb. 1, 1920 @ 99 and interest, to yield over 7⅛%

3,000,000 Gorham Mfg. Co., Providence, First Mortgage 7% Bonds due Feb. 1, 1919-1924, @ 100 and interest

3,000,000 International Cotton Mills 7% Notes, due Feb. 1, 1920 @ 98½ and interest, to yield about 7.80%

1,300,000 Niagara Lockport & Ontario Power 6% Notes, due Feb. 1, 1920 @ 97 and interest, to yield about 7.64%

7,500,000 Philadelphia Electric Co. 6% Secured Notes, due Feb. 1, 1920 @ 97¾ and interest, to yield 7¼%

2,000,000 Public Service of Northern Illinois 6% Notes, due Feb. 1, 1920 @ 96¾ and interest, to yield 7.80%.

1,000,000 Sinclair Refining 6% Notes, due July 1, 1918 to Jan. 1, 1921 at a price to yield 7%

1,200,000 Toledo Traction Light & Power Second Lien 7% Bonds due Jan. 1, 1921 @ 97 and interest, to yield about 8¼%

1,560,900 Union Light, Heat & Power of Covington, Ky. First Mortgage Lien 6% Notes due Feb. 15, 1920, @ 96¾ and interest, to yield 7⅞%

7,500,000 United Gas Improvement Co. 6% Notes, due Feb. 1, 1919 @ 99.05 and interest, to yield 7%

1,500,000 West Penn Power 7% Notes, due Feb. 1, 1920 @ 98.55 and interest, to yield 7.80%

1,250,000 West Virginia Water & Electric First Mortgage 6% Bonds, due Sept. 1, 1922, @ 96 and interest, to yield 7%

The larger municipal issues include:

$1,550,000 Cleveland 5% and 4½% Bonds, on a 4.70% and 4.75% basis.

$440,000 Harrisburg, Pa., School District 4½% Bonds on a 4.25% basis.

$1,945,000 Massachusetts 4¾% and 5% Bonds, on a 4.45% basis.

$3,000,000 Massachusetts Eight Months Notes, on a 4.55% basis.

The average price of 40 standard issues as reported by the Wall Street Journal on February 26, was 84.45, compared with 83.96 on January 26 and 94.21 on February 26, 1917.

STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS FEBRUARY 21, 1918.

(In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco	Total
Gold coin and certificates in vault	9.760	308,316	10,593	20.530	6.276	5,781	30.143	4,653	15,630	273	8,637	26,916	447,508
Gold Settlement Fund	28,206	63,667	45,383	53,158	17,715	15,639	46,827	26,805	8,011	35,701	16,025	18,106	375,273
Gold with foreign agencies	3.675	18,112	3,675	4.725	1,837	1.575	7,350	2.100	2,100	2,625	1,838	2.888	52,500
Total gold held by banks	41,641	390,095	59,651	78,443	25,828	22,995	84,320	33,558	25,741	38,599	26,500	47,910	875,281
Gold with Federal Reserve Agents	48 696	254.887	71,083	80,903	25,888	48,112	142,980	40,016	41,050	55,664	24.515	43,229	877,023
Gold Redemption Fund	2,000	10,000	1,477	309	351	908	943	1,044	1,449	412	1.020	178	20,091
Total gold reserves	92,337	654,982	132,211	159,655	52,067	72,015	228,243	74,618	68,240	94,675	52,035	91,317	1,772,395
Legal tender notes, Silver, etc	5,954	39.712	937	1,727	378	1.637	5.459	1,353	604	78	1,936	354	60,129
Total Reserves	98,291	694,694	133,148	161,382	52,445	73,652	233,702	75.971	68,844	94.753	53,971	91,671	1.832.524
Bills discounted, Members	59,436	177,330	24,849	35,392	35,116	9,462	78,110	21,470	10,865	18,811	8,304	30,389	509,534
Bills bought in open mark't	16.287	176,737	18.264	8,938	3.497	6,719	15,927	6.323	1,896	1,489	9.971	30,122	296,170
Total bills on hand	75,723	354,067	43,113	44,330	38,613	16,181	94,037	27,793	12,761	20,300	18,275	60,511	c 805,704
U. S. Governm't long-term securities	1,330	4,785	6,128	8,261	1,234	3,464	7,007	2,233	3,168	8,862	4,021	2,457	52,950
U. S. Governm't short-term securities	2,194	112,589	4,527	26,262	1,979	3,051	4,732	1,444	4,244	4,453	2,730	1,502	169,707
All other earning assets			10			328	689	159	998		923	329	3,436
Total Earning Assets	79,247	471,441	53,778	78,853	41.826	23,024	106.465	31,629	21,171	33,615	25,949	64,799	1,031,797
Due fr. other F. R. Bks. net				6,046	2,048		16,055	8,712		2.919	329	1,053	b 11,463
Uncollected Items	17,897	62,991	33,856	18,836	21,004	17,040	50,460	16,175	8.976	23,880	17,021	11,266	299,402
Total deduction from gross deposits	17,897	62,991	33,856	24,882	23,052	17,040	66,515	24,887	8,976	26,799	17,350	12,319	310,865
5% redemption fund against F. R. bank notes										400	137		537
All other resources			302		14	67						268	731
TOTAL RESOURCES	195,435	1,229,126	221,164	265,117	117,337	113,783	406,682	132,487	98,991	155,567	97,407	169,057	3,176,454
LIABILITIES													
Capital Paid in	6,005	19,665	6,848	8,319	3,739	2,877	9,234	3,480	2,659	3,413	2,815	4,230	73,305
Surplus	75	649			116	40	216		38				1,134
Government Deposits	4,272	7,405	1,611	6,925	1,412	2,440	4,275	4,138	2,756	4,815	4,772	11,334	56,165
Due to members—reserve account	84,711	645.429	82,845	114.067	43.231	38,464	179.349	52.382	39.221	71,070	39,810	69,141	1,459,720
Collection Items	14,482	49.757	27,084	17,809	15,424	10,559	20,736	13,487	3,482	9,085	7,537	9,856	199,278
Due to other F. R. Bk's net	1,405	22,974	918			481			228				
Other deposits incld'g For. Government credits		53,443		156		2	1.919	177	6	9		2.617	58.329
Total Gross Deposits	104,870	779,058	112,148	138,967	60,067	51,929	206,279	70,184	45,693	84,979	52,119	97,948	1,773,492
F. R. Notes in actual circulation	83,701	426,557	102,176	117,434	53,415	58,937	190,442	58,445	50,507	58,719	42.369	71,879	a 1,314,581
F. R. Bank Notes in circulation, net liability										7,999			7,999
All other Liabilities incl. Foreign Govern't credits	784	3.247		397			491	369	91	457	104		5.943
TOTAL LIABILITIES	195.435	1,229.126	221.164	265.117	117.337	113.783	406,682	132.487	98,991	155,567	97.407	169.057	3,176,454

(a) Total Reserve notes in circulation, 1,314,581.

(b) Difference between net amounts due from and net amounts due to other Federal Reserve Banks, 11,463: Ratio of gold reserves to net deposit and Federal Reserve note liabilities combined 63.8%. Ratio of total reserves to net deposit and Federal Reserve note liabilities combined 66.0%.

(c) Bills discounted and bought; municipal warrants, etc.: 1—15 days 384,826; 16—30 days 186,595; 31—60 days 181,351; 61—90 days 184,778; over 90 days 38,473. Total 976,023.

DISCOUNT RATES UNCHANGED FROM A MONTH AGO.

1812

1918

Economic Conditions
Governmental Finance
United States Securities

NEW YORK, APRIL, 1918.

The War Situation.

INTEREST is intensely centered at the moment upon the battle front in France, where the long predicted German offensive is in action, with all the power which the redoubtable war-machine can muster. With the disappearance of Russia as a combatant and the consequent release of the German and Austrian troops on that front, it was to be expected that as soon as preparations were completed, and before the forces of the United States were fully in the field, the German commanders would make a supreme effort to break down the allied lines on the west. If they are ever to win, obviously the spring of 1918 is the time for them to do it, and it is certain that they will spare no sacrifice in the attempt. The method is the familiar one in military science of seeking first to establish artillery superiority at a given point, and following this up by throwing overwhelming forces of infantry against the enemy line. Some degree of success in pushing back the enemy usually attends such efforts. The attack upon Verdun made headway for a time and the French and English papers prepared their readers for the probable abandonment of the place, but the German losses were so heavy that the movement was at length abandoned. And so both French and British have been able to make limited gains by the policy of concentrating forces to obtain superiority at a given point, but the question of how much advantage is won by such attacks depends upon the strategical value of the ground and the cost of the movement in casualties. The German authorities have frankly staked everything on this effort. They have declared that this is to be the decisive blow, have rallied their armies by re-enforcements and cheered the country with the hope of early peace as the result of victory. If they fail to break through after doing their utmost, and after enduring the terrible losses which they must suffer, the disappointment will be bitter and the loss of morale inevitably great. The United States will become a constantly more formidable factor in the situation, and the possibility of German victory will grow more and more remote and improbable.

Germany's False Hope.

If the worst should happen and the German should succeed in driving a wedge between the French and English armies, and of even establishing their superiority on land for a time, they would be still a long way from a position where they could dictate a peace to suit their ambitions, for command of the sea would remain with the United States, and Great Britain. There will be no peace, no matter what occurs on the continent of Europe, until the purposes for which the United States entered the war are realized. They will be realized, not alone because the people of the United States will stand immovably for them, but because the whole world outside of Germany and her three allies will stand for them. Those purposes do not involve the subjection of the German nation or its exclusion from opportunity in the world of trade and industry; that has been sufficiently reiterated. They call for the vindication of certain principles of public right, which were violated by the ultimatum to Serbia, by the attack upon Belgium and by the violation of neutral rights upon the high seas. The world outside of the offending nations is one in its judgment upon these acts, and the German military power will never dictate the terms of peace, though her armies should sweep Europe to the shores of every sea. The United States can live without Germany, and if need be even without Europe, but Germany will know no peace or world-intercourse or prosperity at home with the German name detested in half of Europe and all the rest of the world. She will have to send her war chiefs to the rear before she finds peace.

Every utterance from a business source in Germany emphasizes the necessity for a peace that will give her access to raw materials for her industries and markets for her products. These wants will not be satisfied by any campaign she can make in France. If the people of Germany are cherishing any such hope they had better be done with it at once; they are wasting their armies for a decision that will never come. The only effect will be to deepen

the resolution of the United States, quicken the recruiting of its armies and its shipyards, and stimulate the concentration of its energies, while the bonds between the Allied Nations and all the peoples of the Americas and Asia will grow stronger.

The Value of Ideals.

There is nothing in the situation to swerve the people of the United States. The loss of life occurring and to be anticipated is terrible, but this war has become too grave in its significance for men to weigh their own lives in the balance against all for which they contend. They are only concerned about the ultimate outcome, and that the war shall achieve permanent results.

The intangible values which are the moral heritage of the race are the only values worth thinking of now. Shall we pass what we have received of them down unimpaired, and with contributions of our own? Destruction of property is of no significance, a check to material progress is nothing, the erection of new brick or steel buildings can wait—although if that is a consideration this country was never making industrial progress as fast as at this time, because it is working under stimulus and is more receptive than ever to new ideas. Ideas, at last, are the only things that endure. The wealth inherited from the past is soon torn down or burned to be rid of it.

This is one of the great crises of the world's history, a period which if nobly borne will stand out through all time for the enlightenment and inspiration of mankind. How we bear ourselves toward the issues involved, rather than how much money is spent or how many lives it costs, will be the matter of concern to our children's children. What citizen of Holland today deplores the cost of the glorious struggle, covering nearly three generations of almost continuous warfare, which established her liberties and did so much to advance the cause of Liberty throughout the world? The people of Holland might have had peace to pursue the trade and industries in which they were so marvelously proficient, if only they had been satisfied not to contend for certain rights and beliefs, but from generation to generation they rejected peace on those terms. Moreover, their history indicates that the proficiency and success which they attained in the arts and trades were due to that same vigor and independence of mind which led them to contend for their liberties against almost hopeless odds. The relationship is vital. Without the character to fight for ideals there is no foundation for success of any kind.

No More Business as Usual.

There is no similarity between the situation of little Holland in her great struggle and that of the United States today, as regards resources and the chances of victory, but in that willingness to fight for ideals we believe the people of this country will not be found wanting. They have the strength to make a certainty of the outcome when that strength is fully exerted. We have not made progress as fast as we might or should, but the present situation on the war-front will arouse the country as nothing else could. We have not as individuals appreciated our relations to the task. The Secretary of the Treasury announces that disbursements in this fiscal year will fall far below what was expected, because the war work is behind, and it is behind because the prosperity of the country has placed demands upon the industries which together with the war-work could not be met. The lesson is plain. The labor supply and industrial capacity of the country must be devoted far more effectively and completely to the Government's needs.

The Peace Treaties.

The treaty of peace between Russia and the quadruple alliance was finally agreed to at Brest-Litovskii on March 3, and subsequently ratified by the Bolsheviki assembly at Moscow. The terms are oppressive and humiliating to Russia, but with the army disbanded before peace negotiations began, the road to Petrograd open, and the industrial organization paralyzed, there was clearly much truth in the plea of the Bolsheviki leaders that they could do nothing else but make peace. The plaintive declaration that "the enemy's knees are on our chest," described the situation accurately.

The territorial losses of Russia by the treaty cannot be definitely known until the new boundary line on the west is established by a commission and a map is shown, as the treaty refers to a map agreed upon and a boundary delineated thereon. It is certain that Russia loses the provinces of Esthonia, Livonia and Courland, bordering on the Gulfs of Finland and Riga and the Baltic Sea, which takes all of its ports having access to the Baltic except Petrograd. It also loses all of Poland and some portion of the provinces bordering on Poland. It recognizes the independence of the new Ukraine Republic, which involves a loss of about 25,000,000 people and the important port of Odessa on the Black Sea. Just how much territory will go with the Ukraine is not yet determined, but it may include the Crimea with the port of Sebastapol. For generations it has been the ambition of Russia to enlarge her facilities of access to the oceans, but they are materially contracted by this treaty. She recognizes the independence of Finland and surrenders the Aland Islands in the Baltic, to whom is not clearly stated, but it is promised that Germany, Russia, Finland and Sweden

will enter into a subsequent agreement for their non-fortification.

The Anatolian provinces in Asia Minor and districts of Ardolian, Kars and Batum are relinquished, and Turkey is acknowledged to have a special interest in the disposition to be made of them. Batum is the principal port for the Caucasus, including important oil regions.

No territory is directly ceded to Germany or her allies, but as to the provinces west of the new Russian boundary it is agreed to "let Germany and Austria decide the future fate of these territories in agreement with their populations." This seems to be a concession to the doctrine of self-determination, but with Germany instead of Russia officiating as patron and protector. What the Kaiser thinks of it is indicated by an exuberant declaration to the President of the lower house of the Prussian Diet that "the Germanization of the Baltic is now made secure for all time." The landing of German soldiers on the Aland Islands caused unfavorable comments from Swedish journals, which said that no German help was required to maintain order there.

The prisoners of war on both sides are to be sent home, arrangements for this and other adjustments to be completed by a joint commission after the treaty is ratified. The trade relations are set forth in an appendix which has not been published, but the German press report says the provisions are analogous to those of the Ukraine treaty. Russia agrees to carry out the complete demobilization of her army, inclusive of the forces newly formed by the present government.

Liberal German Comment.

The German people are naturally elated over the treaty, but there are some thoughtful comments which indicate misgivings that the terms accorded Russia may have unpleasant results in the future. The editor of the *Berliner Tageblatt*, one of the liberal journals, in a lengthy article upon the subject ventures to comment as follows:

> For a long time past everybody who can think politically has known that it was a mistake to shut Serbia off from the sea. Are we now to push back the Russian Empire from Odessa in the south and from all ice-free ports in the north, and to hem her in close up to Petersburg—the Russian Empire, which still contains mighty forces and is always producing new forces? Are we not thus creating the danger of an explosion? Is the weight of the future Russia of no importance for world-policy? Does not the erection of so many independent States, which are not united in a Russian league but are to be protected by Germany, although their inhabitants, while quarreling among themselves, will yet look to Mother-Russia—does not that constitute a danger?

The *Tageblatt* is not alone in its comments. Other leaders in the liberal party and leaders of the Socialist party sound the same warning.

Russian Food Supply.

How much relief Germany will get from food supplies in Russia is an important question. The best information to be had indicates that no large supplies exist. The crop of spring-sown grain in 1917 was poor, and there have been no accumulations since the outbreak of the war. In the fall of 1916 the imperial government, in order to stimulate production, fixed minimum prices much above the normal level, and in 1917, the revolutionary government doubled them, which indicates that only small supplies have been available. The confusion which prevails as a result of the agitation to re-distribute the lands, the fact that capital is not available to finance the farmers and that new supplies of implements are not to be had, are unfavorable to production. Eighty per cent. of the Russian production is normally required at home, so that a decline of 20 per cent. in the yield leaves nothing for export. If German influence is dominant in the country some kind of order may be brought out of the chaos, and Germany get grain, even though Russians starve, but on the other hand a policy of this kind would provoke antagonism and perhaps defeat itself. If Germany was in position to really trade with Russia and supply the country with capital and the things which it needs, it could doubtless get much in return, but it is difficult to see how Germany can spare anything but paper money, of which the Russians already have a superfluity of their own make.

Since the German treaty with the Ukraine was signed fighting has broken out afresh, due it is said to German insistence upon removing grain wanted at home. Northern Russia, with the great cities of Petrograd and Moscow, is never self-supporting as to food, and the loss of the Ukraine if permanent may be a serious matter to those cities, possibly as affecting both food supplies and the market for their industries.

Status of Finland.

Finland was conquered by and annexed to Sweden in the 12th century; a portion of it was re-annexed to Russia in 1710 by Peter the Great, and the remainder in 1909. The relation to Russia, however, was only through the Czar, as Grand Duke, and under the old constitution, which guaranteed almost complete autonomy. In July, 1917, the Diet asserted that the Czar having ceased to rule that body was supreme in all matters in which the Czar and Grand Duke had had authority, but the Kerensky Government of Russia claimed its right to succeed to the Czar's authority, ordered the dissolution of the Diet and a new election. The new Diet declared the independence of Finland, but the party defeated in the election claimed that the Kerensky dissolution was illegal, and as a result a state of civil war exists. The Red Guard, or Socialist party, claims to act under the old Diet while the White

Guard acts under the authority of the new Diet. The independence of Finland has been recognized by the Scandinavian countries, Spain, France, Switzerland, Germany, Austria-Hungary, and the Russian Soviet.

Peace Treaty With Rumania.

Rumania entered the war on the side of the allies, relying upon the support of Russia, and with that support gone, isolated as she is, there is nothing for her to do but make peace also, and negotiations are pending. It is understood that under the terms imposed the province of Dobrudja, which lies in a great bend of the Danube river and between the river and the Black sea, will be ceded to Bulgaria. This will carry the principal seaport of the country, Constanza, upon whose harbor the Rumanian government has expended immense sums for breakwaters, docks, warehouses for grain and reservoir for petroleum. There is expectation, however, that compensation will be allowed in the form of the province of Bessarabia, taken from Russia, which was formerly a part of Rumania and whose population is of the same race. With respect for racial ties, Bessarabia belongs to Rumania and the exchange might be not unwelcome if it were not for the high value set on the port of Constanza.

Third Liberty Loan.

The announcement of the amount and terms of the Third Liberty Loan has been well received, the dominating feeling being one of relief that no greater amount is required at this time. After the talk about raising six, eight or ten billions, the task of raising three looks easy.

It had been generally supposed that the rate would be 4½ per cent., and the decision to make it 4¼ meets some dissenting opinion, although less than the announcement that there will be no privilege of conversion into later issues. The objections, however, come mainly from the workers who are thinking of the buying arguments which they will have to offer to the public. There are weighty reasons other than the saving to the Treasury for keeping the rate as low as practicable, but as we have seen the determining consideration at last must be the rate at which the bonds will probably sell in the open market. For the purpose of stabilizing them the Secretary proposes a sinking fund of five per cent. from which purchases can be made from time to time, which is the policy followed in Great Britain. The decision to make no provision for future conversions indicates an intention to make a stand on 4¼ per cent. as the rate on all further issues, as the British government has taken a stand on 5 per cent. This position can be supported on the ground that even if it is found advisable to raise the rate on future loans, everybody will have an equal chance to share in them, and that it is not necessary to raise the rate on all past issues; or, Congress in its discretion may hereafter provide for the conversion of past issues upon terms which require the investment of new money. The new issue is simply without promises of this kind.

Light on the Financial Problem.

The most notable thing about the announcement is that it clears up much of the misapprehension which has existed about the task of financing the war. The estimates footing up approximately $19,000,000,000 represented what the Government planned to spend in the year ending June 30 next, and those figures have been painted on the sky as the sum of money which must be raised within that time. Nobody could see how it might possibly be done, but in these days there is no alternative but to do what must be done. The only consolation we have been able to find was in the theory, often affirmed in these columns, that we would surely be able to pay ourselves for any amount of work we were able to do. In other words, the real problem was not in providing the means of payment, but in getting the work done. The figures for expenditures from month to month have indicated that nowhere near $19,000,000,000 would be disbursed in the year, but nobody outside of official circles and probably nobody in those circles, was in position to know definitely what might be done in the latter part of the year. At last, however, the situation is sufficiently clear for the Secretary of the Treasury to know that a $3,000,000,000 loan in addition to his other resources will carry him through. The total disbursements from July 1 to March 25 were $8,220,658,030, and at the present rate will not exceed $12,000,000,000 for the year.

This outcome makes the whole situation more comprehensible. We are down now, out of the clouds, and have our feet on the earth. Such an amount of money as was named for expenditure this year could not possibly be expended in one year without either a great contraction of private expenditures or a great increase in productive efficiency, and to whatever extent these conditions may become effective in the future they will themselves provide the additional means required.

In short, the war problem is first an industrial problem. The financial ability required is dependent upon and corresponds to the industrial capacity. If we will develop and properly conserve the latter, there will be no trouble about the former. This demonstartion lights up the whole problem of financing the war. It establishes confidence. There is no need for alarm on the subject of raising money; no occasion for doubtful experiments. All that is required is that the country shall not expect or attempt to use the same labor and capital twice at the same time for different purposes. What it wishes to give to the

Government's service it must not try to use privately.

The theory that we must resort deliberately and designedly to inflation has not a leg to stand on. The only sense in which inflation can be said to be unavoidable is in the sense that so many people are ignorant of the principles of sound finance and mistaken as to the policies which individuals should pursue in order to assist the Government, that a considerable lack of effective cooperation is to be expected.

Loan Should Be Over-Subscribed.

In the matter of organization, the preparations for this loan will be much more thorough than for either of the preceding ones. The local committees know their ground and the methods of presentation have been developed. Where so great an effort is required to enable each community to accomplish its quota, the moral pressure upon individuals to do their fair part becomes very great. The primitive responsibility of the clan and the family for the individual, and the corresponding authority over the individual is in some degree revived. Proposals have been offered for enactments to provide conscription for loans, based upon property holdings, but there are evident difficulties about an effort to apply any fixed rule of compulsion. Indebtedness is common, and two persons whose property holdings were of the same nominal value might differ greatly in their ability to subscribe or pay round sums of money. Therefore any system of exerting pressure must needs have a large degree of elasticity in its application, and according to reports this is true of some impromptu methods adopted in the west. The local committee reviews the subscriptions and when they fall below expectations the parties are brought before the committee and asked for an explanation. The whole situation as it exists in that locality is laid before him, he is told what is expected of his neighbors and himself in order that the community may make its proper showing, and it is said that rarely does the conference fail of satisfactory results.

The canvass falls at a time when the situation on the battle-front in France is of the gravest nature. The French and English armies with the help of our own small but devoted force must hold the line against the stupendous efforts of the enemy until more men and equipment can be sent to their support. This loan coming at the very moment of supreme effort and anxiety should carry a message that will show the spirit and will of the American people to prosecute the war to victory. Generations hence when historians study the record to know how the country met the emergency, this loan will be one of the telling features.

The loan should be over-subscribed to at least $5,000,000,000. It is desirable that there shall not be another large loan before the fall months, and by the time this one is closed it will be fully covered by Treasury certificates outstanding, sold in anticipation.

The Secretary has reserved the right to accept all over-subscriptions in full, and is asking Congress to raise the limit upon Treasury certificates outstanding to $8,000,000,000.

Interest Upon Bank Deposits.

The agitation over interest rates on deposits has been settled for New York City by action of the Clearing House adopting the sliding scale for correspondent bank balances, which were the principal feature of the controversy. The amendment to the by-laws divides deposits into three classes as follows: First class, commercial bank balances; second class, deposits of business concerns, corporations and individuals and balances due savings institutions; third class, all time deposits. Maximum rates of interest are named for each class, the banks having the privilege in all cases of restricting their payments to lower rates. For the third class the maximum rate is 3½ per cent, and for the second class 3 per cent. For deposits of the first class the maximum is fixed in relation to the discount rate of the Federal Reserve Bank of New York upon 90-day paper, as follows:

Federal Reserve Rate on 90 day paper	Maximum Rate on Class 1 deposits
2 per cent	1 per cent
2½ " "	1¼ " "
3 " "	1½ " "
3½ " "	1¾ " "
4 " "	2 " "
4½ " "	2¼ " "
5 " "	2½ " "
5½ " "	2¾ " "
6 " "	3 " "

The question of rate on correspondent bank balances has been under discussion a long time, it being generally held that the flat rate was unscientific. It tended to pile up funds here unduly in dull times without offering any inducement to hold them when conditions would justify a somewhat higher rate, and this tended to exaggerate the natural fluctuations in supply, and produce greater instability. In London, the greatest of all centers for outside money, the rates upon deposit have long been based upon the Bank of England discount rate, and upon the continent the same policy of sliding scale has been generally followed. Unquestionably it is based upon the proper principles, and competitive conditions alone have prevented its adoption here before now. This new system goes into effect at a time when money is worth more than the average rate under normal conditions, with the result that the first change under it is an advance from 2 to 2¼ per cent. on bank balances where the maximum rate is put in force, and this is doubtless favorable to its inauguration with the minimum of friction.

The Bond Market.

The opening of the month witnessed a general decline in bond prices as peace rumors gave way to the prospect for a protracted war. The only exception to the decline and inactivity was industrials, which in some cases reached their highest prices of the year. During the latter part of the month the bond transactions were confined largely to Liberty issues to the exclusion of practically all other securities. On the announcement that the rate of the next Liberty Loan would be 4¼% and the amount $3,000,000,000, record bond transactions resulted on the Stock Exchange, the total amount of Liberty Bonds traded in one day being $26,225,000 with prices on the 3½s advancing to 99 and on the 2d 4s to 97.98. After this announcement there was a more active interest in general securities, Burlington Joint 4s proving one of the popular railroad purchases.

During the month there were limited offerings of new public utility and industrial issues by bond distributing organizations, and over-the-counter business was fairly active; transactions, however, were largely with private investors and in small amounts, showing a very wide distribution, which resulted in firm prices and in some cases an advance over the issuance figures. This was particularly true of the $25,000,000 Procter & Gamble 7% Notes, which showed advances of from ½% on the 1919 maturity to 2¾% on the 1923 maturity. The following were the most prominent offerings:

$1,430,000 American Gas & Electric 6% Notes, due March 1, 1921, @ 95½ and interest, to yield about 7¾%.

$2,225,000 Cincinnati Gas & Electric 6% Notes, due March 15, 1920, @ 97¾ and interest, to yield about 7.25%.

$1,800,000 Cusack Co. (Advertising Signs) 6% Bonds, due February 1, 1919-28, @ 100 and interest, yielding 6%.

$1,750,000 Dayton Power & Light 7% Bonds, due March 1, 1920, @ 99 and interest, to yield over 7½%.

$1,250,000 Detroit City Gas Co. 5% Bonds, due July 1, 1923, @ 94¼ and interest, to yield 6¼%.

$4,500,000 Detroit United Railways 7% Notes, due April 1, 1923, @ 97 and interest, to yield 7¾%.

$1,600,000 Louisville Gas & Electric Co. 7% Notes, due September 1, 1920, @ 97¾ and interest, to yield 8%.

$4,000,000 Montana Power Co. 5% Bonds, due July 1, 1943, @ 89 and interest, to yield 5.80%.

$1,000,000 Northern States Power 5% Bonds, due 1942, @ 87 and interest, to yield 6%.

$1,500,000 Pittsburg & Shawmut 6% Notes, due March 1, 1920, @ 98⅛ and interest, to yield 7%.

$25,000,000 Proctor & Gamble 7% Notes, due March 1, 1919-1923, at prices to yield 7¼% to 7¾%.

Municipals were inactive during the month, due to the limited number of new offerings. The first week showed a tendency to firmer prices, which eased off until the Liberty Loan announcement, when prices again strengthened. The principal offerings were:

$1,000,000 Cincinnati, Ohio, 20-year 5% Bonds on a 4.75% basis.

$1,000,000 State of South Dakota Rural Credit 4¾% Bonds, Optional 1923, due 1938, at 100 and interest.

$20,000,000 New York City Three Months Notes, on a 4.70% basis.

$900,000 Bridgeport, Conn., 5% Bonds, on a 4.70% basis.

$500,000 Woonsocket, R. I., 15-year average 5% Bonds, on a 4.90% basis.

$3,500,000 State of Louisiana Port Commission 5% Bonds, 29-year average, at 100 and interest.

$1,800,000 New York State 4% Bonds, due 1967, at 93 and interest.

The average price of 40 standard issues as reported by the *Wall Street Journal* on March 28, was 83.25, compared with 84.37 on February 28, and 94.21 on March 28, 1917.

General Business Conditions.

General trade is showing the stimulus of spring, and there is a great sense of relief over the passing of the most severe winter the country has known in many years. The railways are reducing the congestion, and moving a volume of freight much above normal, but there is still much complaint of car shortage, which is the form any lack of facilities finally takes to the shipper. The chief wants of the railways are for locomotives and enlarged terminals. The Interstate Commerce Commission has rendered a decision upon the application of the Eastern roads for a 15 per cent. increase of freight rates, granting it. This is the case which came up in June last year, and was decided adversely, but with permission to the roads to revive it later if conditions continued to grow unfavorable. The administration railway bill has become a law practically as introduced, basing compensation for the roads while under Government management upon the average earnings of the three years ended June 30, 1917, the roads to revert to the owners twenty-one months after the end of the war. The act provides a working fund of $500,000,000 for financing the companies needing help, and the first practical fruits of this are seen in an agreement upon the part of Director-General McAdoo to supply $43,000,000 to the New York, New Haven & Hartford road to meet notes maturing April 15, at 6 per cent. interest. Unquestionably the railway situation has been stabilized by the act, to the great advantage of both owners and public.

Industrial operations are again in full swing with the shipbuilding companies absorbing labor on a large scale. The steel companies have made another 15 per cent. advance in the wages of common labor, making a total of over 80 per cent. since the beginning of the war. Building operations are light except in connection with the war industries, but retail trade is on a great scale, with a general report that high prices are having but slight effect upon the consumption of goods and that the best class of goods are most wanted. The textile mills are running to capac-

ity and the urgent demand for their products maintain prices at a handsome margin over even the present high price of raw cotton.

Money is in strong demand and on practically a 6 per cent. basis in all the important financial centers of the country. Loans and discounts have remained about on a level for the past three months, except for the increased holdings of Treasury Certificates. The reports of member banks in principal cities show, on March 15, total loans secured by Government obligations, $302,705,000.

Sentiment in all circles is buoyant and confident as to the outlook for business during the year.

Crops and Markets.

The last quarter of the crop year, the crucial period when supplies are short, is here. The bottom of the wheat bins will have to be swept to eke out enough until harvest arrives, if we are to make the shipments which are needed in Europe. Bradstreet's reported the stocks of wheat on March 16 at 11,496,000 bushels in the principal markets of this country east of the Rocky Mountains, against 48,393,000 on the corresponding date last year, and 31,217,000 in Canada, against 135,605,000 last year. The Department of Agriculture reported the holdings of country mills and elevators on March 1st at 68,970,000 bushels, which was about 20,000,000 less than last year. It estimated the stock on farms at 111,270,000 bushels. Allowing 60,000,000 bushels for seed, about 120,000,000 would remain for export and consumption. The Food Administrator asks that consumption be cut to one-half the normal rate for the remainder of the crop year, in order to fill the pressing needs of the allied countries. There should be cheerful compliance. The country has an abundance of other food, and this is one of the lightest sacrifices the war will ask of us, although nothing is more important.

The outlook is good for a normal spring season upon the farms. Already seeding has begun, and the soil is generally in good condition. Reports from the winter wheat crop are encouraging. Thanks to the good snow covering it went through the severe winter with less injury than usual, and the snow melting together with moderate rains have given it a fair amount of moisture to start the spring growth. The acreage is the largest ever seeded. The agitation in favor of raising the Government price has resulted in action by the United States Senate to make it $2.50 per bushel. Much can be said in favor of a higher price, or of the natural price, for the important thing is to have a large crop grown, but it is unfortunate to have confusion and uncertainty over the Government's policy. The agitation tends to delay the marketing of wheat in farmers' hands, just now an urgent matter. This is one of the inevitable incidents of Government price-fixing however wisely conducted. Reports are generally favorable for a full acreage of spring wheat.

The corn crop of last year turned out a great disappointment. The yield was nominally large, but the crop had a late start and unfavorable weather for maturing, with the result that the percentage of moisture was too high for good keeping in crib or store. Some of it was artificially dried at the terminal points, but the capacity of the drying plants was small in comparison to the amount of soft corn, and railway cars could not be had to move the corn. Much of it was fed to stock, but the loss by spoilage has been large. Competent observers have estimated that in the leading corn states 50 to 60 per cent of the crop would not keep into warm weather. The Illinois Grain Dealers' Association early in March estimated that 65 per cent of the corn crop of that State was still in farmers' hands.

The oats crop was large, of fine quality, and there are large reserves on hand. Millers have rapidly adapted their equipment to the coarse grains, so that the capacity for producing flour from all of them, and mixtures of many kinds, is now large, and the consumption of such flours another year will be much greater than in the past.

Live Stock Interests.

Cattle and sheep-feeders have not made much money in the last year, and many have lost heavily, the high price of feed having made the added weight cost more than it came to. The meatless days are blamed for this result, as it is said they get the public out of the habit of meat-eating.

Receipts of cattle and sheep at leading markets have been running below last year, but hogs are ahead. The supply of hogs in the country is good, and the quality never better. The top price at Chicago is around $18 per hundred weight, top on cattle about $14.50, sheep $14.50, lambs, $18.90. The drought which prevailed throughout 1917 over more than one-half of the state of Texas continues and has inflicted enormous losses upon the live stock and farming interests. The Secretary of the Treasury will deposit $5,000,000 in the banks of the affected district to aid them in granting credit where it will be helpful. Latest advices tell of rain in Kansas, Oklahoma and sections of Texas.

Cotton Situation.

Advices upon the cotton outlook say that with the exception of Oklahoma and Texas weather and soil conditions are excellent for planting. The Watkins Bureau estimates that the acreage will be about 35,465,000 acres compared with 34,600,000 acres planted and 33,-

634,000 acres harvested last year. On account of dry weather and a cold winter the boll weevil is expected to do less damage than usual. Counting upon weather conditions being as good as the average for the last ten years the Watkins estimate is for a crop of 13,100,000 bales of lint, plus 1,572,000 bales of linters, or a total yield of 14,672,000 bales. The Government's final report on the 1917 crop was 11,231,263 bales without linters, which are estimated by Watkins at 1,347,751 bales. The carry-over on August 1st, 1917, is estimated by the same authority at 3,173,832 bales, making a total supply for the current year of 15,752,846 bales. This country's consumption, if estimated the same as last year, will be 7,658,207 bales; exports, counting remainder of this year same as last, 4,681,799 bales; total demand 12,340,000 bales, which would leave a carry-over August 1, 1918, slightly larger than last year.

The Watkins calculation shows a rapid decline in the foreign consumption of American cotton in the last three years. Its figures for the season 1914-15 are 7,825,000 bales; for 1915-16, 7,534,000 bales; for 1916-17, 6,388,000 bales; for the first six months of the present season, 2,330,000 bales compared with 3,180,000 for the corresponding period last year, indicating a total for this season of only about 4,727,120 bales. At this rate the world must be wearing out its supply of cotton goods at a rapid rate. The decline is undoubtedly due to shortage of ocean tonnage.

The price of cotton for May delivery is close to 33 cents per pound.

Farm Labor and Machinery.

A serious shortage of labor exists in all localities contiguous to the industrial towns, even as compared with a year ago, and is being made up as far as practicable by purchases of machinery. These are large, and particularly of tractors of the handy sizes. The tractor industry was ready for great expansion. It has given a striking example of the community use of private capital—of the readiness with which capital in recent years, since it has become comparatively abundant, pours into a new industry and develops it to the advantage of the public. Millions upon millions, representing for the most part profits accumulated in making farm implements and automobiles, have been spent in making the farm tractor what it is to-day. Many of those millions will never be recovered by the individuals who expended them, but the tractor has been developed from the experimental and novelty stage to be a practical utility on the farm of average size and an important factor in feeding the world. Thousands of them are being sent to England and France and Henry Ford is building a great factory at Cork, Ireland, to turn them out by the tens of thousands.

There are perhaps 200 makes of tractors now on the market, most of them with some feature peculiar to it, which illustrates the free play of individual initiative in industry. Thousands of minds have been working on the problem under the incentive of the compensation which was expected to reward success.

The amount of energy which has been expended in introducing the implement is enormous. Tractor tournaments bring together scores of competing machines and attract thousands of spectators. Arrangements for giving instruction in handling the machine are made on a large scale. One company plans this year to conduct 500 short term itinerary schools. One school permanently located at a Kansas City had an attendnce of 8,000 last year, and devoted a ten-story building exclusively to training men in handling tractors, trucks and automobiles. The general use of automobiles on farms is a great aid in introducing the tractor.

The Northwestern National Bank Review, of Minneapolis, a city which aspires to the title of the Tractor City, predicts that the machines will be rapidly standardized so that many of the minor parts will be interchangeable, and that the types will be reduced to comparatively few. Production will then be in quantity comparable to the automobile output, but this multiplicity of designs in the development stage represents the evolution not only of this but of every utility. Out of them all, from the labor and fruitage of thousands of minds the best features are gathered together for the final product. The failures are eliminated, much labor and money comes to naught, and unusual rewards are gained by comparatively few. The consequence of chief significance is that a new social utility is created, which will improve living conditions for the whole population.

The Northwestern Bank Review says that instead of being sold under the methods which were long characteristic of farm machinery, on long time credit, the tractors are usually marketed like automobiles, on comparativey short credit.

County Organization.

County organization for the promotion of agriculture is extending rapidly. The State of Iowa reports one or more county field agents in every county of that State, backed up by a county society which proposes to see what can be done by concerted effort to increase crop yields, better the grade of stock, raise the average production of milk per cow, and improve the efficiency and quality of the citizenship. The idea is just beginning to work that this kind of enterprise is not to be regarded simply in the light of philanthropy or patriotism, but as a very practical policy for the entire business community to promote. It brings money

into the neighborhood and puts it into circulation. It makes trade good, doubles up bank deposits, builds new churches and good roads and makes the community a better place in which to live. The world of agriculture is teeming with new and fruitful ideas, and they should be given a chance to circulate. There is no class of business men better qualified to lead off in an undertaking of this kind than the bankers, and no class profits more by the movement when it gets under way.

There is agitation in some states to encourage local bankers to use the Federal Reserve Banks more freely for rediscounting agricultural paper. It is thought that country bankers have not all fully appreciated the facilities which the reserve banks are ready to grant in handling such paper, and that much more assistance in farming operations can be had than is commonly believed.

Garden Production.

A splendid start was made last year at popularizing the garden movement. Tens of thousands of new gardens were cultivated and the vegetable production thus stimulated has been an important factor in the food supply during the past year. Nor was the gain confined to food production; thousands of boys and girls were taught a useful lesson, and thousands of men and women how a little healthful recreation could be made to yield a good money return. One of the most successful features of the movement were the community gardens planned by industrial companies for their employes, or by town or school committees, where competent supervision was provided.

So long as the war lasts the food situation will remain critical. There will be world scarcity, the risk of shortage will be great, prices will be high, railway transportation will be uncertain, and every community should do what it can to provide its own supplies. Every family should do what it can to provide its own supply, not only of fresh vegetables and fruits but of canned goods for winter use. It is not only wise policy but a public duty, and one of the ways by which the individual can help in winning the war.

The National Emergency Food Gardens Commission, of Washington, D. C., is at the head of the garden movement. Any bank wishing to stimulate the garden movement by the circulation of tracts or by organized effort should write to the Commission for advice.

War Savings.

For the first 27 days of March the sales of War Savings and Thrift Stamps amounted to $48,166,557.96, an average of $1,783,946.59 per day. At this rate they would have paid all the expenses of the Civil War. The total sales to March 27 were $124,110,975.65.

Silver Situation.

It is again reported from Washington that the proposal to release a large sum of silver dollars, $200,000,000 is mentioned, from the silver certificate reserve of the Treasury, by substituting Federal reserve notes for certificates in circulation will be carried through. A truce is said to have been arranged between the factions which have heretofore rushed to arms whenever silver dollar coinage was mentioned, by which no objection will be raised to the melting of these dollars upon condition that they will be replaced later and that steps are taken to stabilize the price to producers around $1.00 per ounce for a term of years. The silver is wanted partly for our own coinage, partly to settle our trade balances, and partly to relieve the general trade situation with India. The latter country is selling its wheat, cotton, burlap and other products at prices so high that it has very large balances coming to it, which must be settled either in gold or silver. One dollar per ounce for silver is above the India coinage rate, but exchange rates are all abnormal, and nobody pays much attention to them when goods are wanted as they are now. It is a curious situation when a coin is rated higher for the bullion it contains than for its legal tender value, but that is the case with the rupee.

Gold Mining Costs.

The higher costs of cyanide, labor and other mining costs is affecting gold-mining rather more unfavorably than any other industry because the gold producer is unable to raise even slightly the price of his product. The humble producer of silver, and of the baser metals, has the advantage of him there. The larger part of the gold production of the world is from low grade ores, which are treated successfully on a large scale and a small margin of profit. Not a few producers are kept going when profits are at the vanishing point, always in the hope that conditions may turn more favorable, and when they turn unfavorable these mines are likely to be closed down.

The gold production of the United States fell off approximately $8,000,000 in 1917, and several large enterprises with investments running up into the millions have been placed in a precarious situation. The California agent of the Geological Survey estimates the increased cost of mining gold in 1917 over 1916 at 18 per cent. In the principal gold field of the world, the Transvaal, the total quantity of ore milled in 1917 was 27,862,851 tons, against 29,175,468 in 1916, and the gold yield declined from $197,424,670 to $191,619,605, reckoning the pound sterling at $5.00. The decline in output and in profits would have been greater if the yield per ton of ore had not been raised by taking from reserves. The average working costs advanced from $4.40 per ton to $4.89. Several mines were closed during the year.

British and Canadian Bank Consolidations.

We mentioned last month the several important consolidations which have lately taken place among the leading British banks. The London Economist prints the following table showing the principal items of the balance sheets of the eight leading English joint stock banks (exclusive of the Bank of England) and the totals of the other twenty-two. The table is as follows:

	Deposits	Total Liabilities	Cash	Investments	Discounts and Advances (Inc. Money at Call and Short Notice)
	£	£	£	£	£
London Joint City and Midland.......	278,531	305,693	55,198	68,504	166,359
London County Westminster and Parrs	210,899	244,009	37,911	52,852	136,273
National Prov. & Union...............	175,416	191,204	30,837	57,460	96,316
Lloyds	174,068	194,082	34,685	37,760	108,560
Barclays	129,068	138,013	24,527	26,267	82,462
Lon. Prov. & S. West'n...............	74,626	83,584	15,086	12,960	51,754
Capital and Counties..................	58,646	62,768	12,174	15,351	32,820
Williams, Deacons.....................	28,444	32,048	6,193	6,131	17,822
	1,129,698	1,251,401	216,611	277,285	692,366
Remaining 22 English Joint Stock Banks	237,936	277,230	45,708*	61,846	159,222
	1,367,634	1,528,631	262,319	339,131	851,588

*Includes money at call and short notice for 10 banks.

The difference between the banking organization in the United States and in England is shown very clearly by this table. There are now only thirty English banking institutions, which with their thousands of branches cover the country. Of the total deposits in these banks nearly 83 per cent. are held by eight institutions. In addition to these English banks there are certain foreign banks having offices in London, but the aggregate of their business is comparatively small. Some question has been raised as to whether this state of affairs was approaching a monopoly and a Parliamentary committee has been created to consider the matter with reference to the public interest, but the tenor of comment is to the effect that this consolidation will enable British trade to compete more effectively with rivals after the war. The London Joint Stock Bank is the thirty-first bank absorbed by the London City and Midland, and the latter was itself a consolidation of the London City and Midland banks.

The Canadian banking system is also one of a few large corporations with many branches, and the tendency to consolidation is notable there also. The Bank of Montreal, which is the Government bank in the sense of having the public deposits, and the largest bank in Canada, is absorbing the Bank of British North America, one of the old institutions, organized under a Royal charter in 1836. The combined assets of these two banks on January 31, 1918, were $468,043,-886. The assets of the British Bank of North America at the close of 1916, according to the Canadian Government Bank were $68,855,726.

The Royal Bank of Canada, long one of the important institutions of the country, strengthened itself in 1912 by taking over the Traders Bank, with about $33,000,000 of deposits, last year absorbed the Quebec Bank, with about $11,000,000 of deposits, and is now acquiring the Northern Crown Bank with deposits of about $22,000,000. The latter is essentially a western institution, with most of its offices in the prairie provinces. Including the latter the total assets of the Royal Bank on January 31, 1918, were $348,396,309.

When these latest consolidations are effected there will remain 19 banking corporations in Canada, with 3,100 branch offices, including 124 branches outside of Canada. It is of interest to note that of the latter, 71 are located in the West Indies and in Mexico, Central America, Venezuela and British Guiana, which is a long start over the United States in that region. These Canadian branch banks have been a large factor in developing Canadian trade round the Caribbean.

British War Expenditures.

On March 7th the British Chancellor of the Exchequer, moving a fresh vote of credit in Parliament, stated that the total disbursements during the fiscal year, up to February 9, including loans to allies, had averaged about $32,000,-000 per day, which would amount to about $11,-500,000,000 for the year, and the total debt of Great Britain on March 31st would be approximately $29,000,000,000, of which about $8,000,-000,000 would be represented by loans to the allies and colonies. Receipts from war taxation have run much ahead of the budget estimates, and promise for the year an excess of $250,000,-000, so that total revenues will run well over $3,000,000,000. The last big loan was closed just a year ago, and since then the Treasury has kept itself in funds by various forms of short time borrowing.

In this connection it is worth while to note the achievements of our neighbor, Canada, whose circumstances are in many respects so like our own that we gather some knowledge and assurance from her experience. Canada has raised, by volunteer action, 400,000 men for the war, and is now proceeding to raise another 100,000 by conscription. At this rate it would be no greater task for the United States to raise 7,000,000, and yet the business of Canada goes on with undiminished activity, and with a greater output from her farms and factories than ever before. Subscriptions to the last war loan aggregated $410,000,000, which would be at the rate, based upon population, of over $5,000,000,000 for this country, and the United States is the richer country per capita. The total of the Canadian war loans is $768,000,000. With all of this Canada is making extensive capital expenditures, and just now appropriating $40,000,000 for railway equipment.

According to the Washington figures the trade balance in favor of the United States, in its relations with Canada for the calendar year 1917, was $425,000,000 and for the month of December was $65,000,000. Canada's trade balance with the rest of the world is favorable to her.

The Commonwealth of Australia is just now issuing its sixth war loan, which is for $100,000,000. The amount offered and subscribed in the case of each of the preceding loans is given below:

	Amount of Loan £	Subscriptions Accepted £
First	5,000,000	13,389,440
Second	10,000,000	21,655,680
Third	18,000,000	23,574,120
Fourth	20,000,000	21,456,720
Fifth	20,000,000	20,000,000
	£73,000,000	£100,075,960

National City Bank in Porto Rico.

The National City Bank of New York has completed the preparations for opening a branch at San Juan, Porto Rico, and it will be ready for business in a few days.

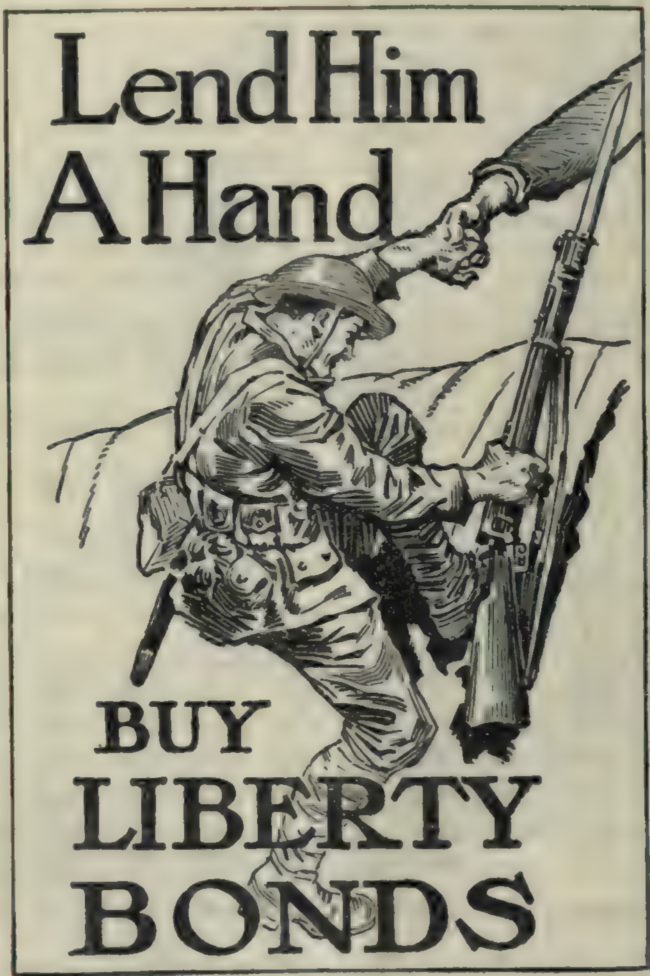
STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS MARCH 28–29, 1918.

(In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco	Total
Gold coin and certificates in vault	10,914	337,572	9,543	32,610	6,227	5,585	29,586	3,222	15,877	149	8,936	28,727	489,948
Gold Settlement Fund	50,518	81,467	50,985	37,628	16,242	15,765	53,937	29,486	9,855	25,366	11,749	16,570	399,568
Gold with foreign agencies	3,675	18,112	3,675	4,725	1,837	1,575	7,350	2,100	2,100	2,625	1,838	2,888	52,500
Total gold held by banks	65,107	437,151	64,203	74,963	24,306	23,925	90,873	34,808	27,832	28,140	22,523	48,185	942,016
Gold with Federal Reserve Agents	48,453	196,319	79,751	88,680	29,374	39,495	165,223	41,047	39,536	55,384	17,363	51,567	852,192
Gold Redemption Fund	2,000	10,000	2,000	246	308	1,111	1,285	1,380	1,030	871	1,202	63	21,496
Total gold reserves	115,560	643,470	145,954	163,889	53,988	64,531	257,381	77,235	68,398	84,395	41,088	99,815	1,815,704
Legal tender notes, Silver, etc.	3,177	40,862	1,568	924	391	1,954	4,464	1,575	610	81	2,361	392	58,359
Total Reserves	118,737	684,332	147,522	164,813	54,379	66,485	261,845	78,810	69,008	84,476	43,449	100,207	1,874,063
Bills discounted, Members	59,741	247,917	31,419	39,225	36,481	13,707	37,837	32,067	5,273	32,338	18,368	28,855	583,228
Bills bought in open mark't	12,746	130,887	22,440	26,914	9,588	7,417	27,655	8,537	11,122	13,806	5,480	27,473	304,065
Total bills on hand	72,487	378,804	53,859	66,139	46,069	21,124	65,492	40,604	16,395	46,144	23,848	56,328	(c) 887,293
U. S. Governm't long-term securities	855	1,618	5,530	7,788	1,233	3,284	17,532	2,233	2,808	8,862	3,970	2,468	58,190
U. S. Governm't short-term securities	2,459	170,493	7,501	18,293	1,994	4,670	32,167	1,444	4,316	4,194	3,124	1,924	252,579
All other earning assets						165	699	143	588	37	1,736	154	3,523
Total Earning Assets	75,801	550,915	66,890	92,220	49,296	29,243	115,890	44,424	24,108	59,237	32,678	60,874	1,201,585
Due fr. other F. R. Bks. net	1,310	4,054		132	4,239	3,461	8,441		1,160	6,294		3,460	(b) 26,945
Uncollected Items	17,878	71,383	41,010	19,405	29,330	19,539	56,606	18,230	13,766	20,496	19,496	11,991	339,130
Total deduction from gross deposits	19,188	75,437	41,010	19,537	33,569	23,000	65,047	18,230	14,926	26,790	19,496	15,451	366,075
5% redemption fund against F. R. bank notes										400	137		537
All other resources			506			53		2,063				1,272	3,724
TOTAL RESOURCES	213,726	1,310,684	255,737	276,570	137,244	118,811	442,782	143,527	108,042	170,903	95,760	177,804	3,445,984
LIABILITIES													
Capital Paid in	6,351	19,711	6,873	8,363	3,761	2,943	9,431	3,476	2,738	3,450	2,830	4,296	74,223
Surplus	75	649			116	40	216		38				1,134
Government Deposits	7,549	5,946	16,996	13,269	6,066	8,856	11,002	5,410	6,687	5,769	7,476	9,060	104,086
Due to members—reserve account	91,216	669,218	83,642	106,850	45,154	39,060	187,288	53,517	40,581	74,984	38,056	70,834	1,499,400
Collection Items	14,903	57,650	32,543	15,804	20,484	10,981	20,294	14,301	4,295	9,647	6,120	9,875	216,897
Due to other F. R. Bk's net			1,421					3,168			1,017		
Other deposits incld'g For. Government credits		75,775		208		3	2,037	97	17	19		2,903	81,059
Total Gross Deposits	113,668	807,589	134,602	136,131	71,704	58,900	220,621	76,493	51,580	90,419	52,669	92,672	1,901,442
F. R. Notes in actual circulation	92,789	477,598	114,262	131,479	61,592	56,928	211,770	63,558	53,538	68,392	40,096	80,836	a 1,452,838
F. R. Bank Notes in circulation, net liability										7,978			7,978
All other Liabilities incl. Foreign Govern't credits	843	5,137		597	71		744		148	661	165		8,369
TOTAL LIABILITIES	213,726	1,310,684	255,737	276,570	137,244	118,811	442,782	143,527	108,042	170,903	95,760	177,804	3,445,984

(a) Total Reserve notes in circulation, 1,452,838.
(b) Difference between net amounts due from and net amounts due to other Federal Reserve Banks, 26,945: Ratio of gold reserves to net deposit and Federal Reserve note liabilities combined 60.8%. Ratio of total reserves to net deposit and Federal Reserve note liabilities combined 62.7%.
(c) Bills discounted and bought; municipal warrants, etc.: 1—15 days 577,634; 16—30 days 129,289; 31—60 days 271,055; 61—90 days 133,107; over 90 days 29,316. Total 1,140,401.

DISCOUNT RATES UNCHANGED FROM A MONTH AGO.


Lend Him
A Hand
BUY
LIBERTY
BONDS

1812

THE NATIONAL CITY BANK OF NEW YORK

1918

Economic Conditions
Governmental Finance
United States Securities

NEW YORK, MAY, 1918.

Responsibility For the War.

THE neutral world made up its mind promptly where the responsibility for this war belonged. The public record of Austria-Hungary's ultimatum to Serbia, of the latter's nearly complete compliance, of the efforts of Sir Edward Grey, the British Foreign Minister, to secure a conference of the powers, and the German reply that it must support its ally, furnished convincing evidence of an agreement between the two central powers to force the European situation to a decisive issue. The Germanic governments, however, in order to justify themselves to their people, have had to maintain the pretence that the war on their part was a defensive one and that England was the arch-conspirator.

This pretence is now completely exposed by German testimony entitled to the highest credence, a statement by Prince Lichnowsky, who was the Ambassador of Germany to Great Britain from November, 1912, until war between the two countries was declared in August, 1914. What German official could be in better position than he to know the attitude and purposes of the British Government, or to fix the responsibility for the break in peaceful relations?

In 1916 Prince Lichnowsky, who is of a distinguished Germanized Polish family, prepared a memorandum review, entitled "My London Mission, 1912-1914," in which he gave a detailed account of his negotiations with the British Foreign Office and of his relations with his home government during these important years, which covered the period from practically the beginning of the first Balkan war to the outbreak of the great war. He did not intend that this paper should be made public at the present time, but seems to have been impelled to write it for the family archives, in order that the truth of his own relations to the war and the political history preceding might be known at least to those close to him and perhaps eventually to the public. The first publication was made in the Swedish Socialist Journal, *Politiken*, in March. On March 16, the matter was brought before the Main Committee of the Reichstag, and the Vice-Chancellor, Herr Von Payer, read a letter of explanation and apology, which had been written by Prince Lichnowsky to the Imperial Chancellor, Count Hertling, in which the Prince said that these "purely private notes" had found their way into wider circles "by an unprecedented breach of confidence." He said that he had

> felt the need in regard to the future and with a view to my own justification, of noting the details of my experiences and impressions there before they vanished from my memory. These notes were intended in a certain degree only for family archives, and I wrote them down without documentary material or notes from the period of my official activity. I considered I might show them, on the assurance of absolute secrecy, to a very few political friends in whose judgment as well as trustworthiness I had equal confidence.

So much for the origin of the paper, which is completely authenticated. The paper itself supports all the statements of the British Foreign Office as to its efforts to maintain the peace of Europe and to bring about a fair and permanent adjustment of all matters which might be the cause of misunderstanding and controversy.

Menace of the Balkan War.

He says that shortly after his arrival in London, in 1912, "Sir Edward Grey proposed an informal exchange of views, in order to prevent a European war developing out of the Balkan War," and that

> the British Minister by no means placed himself on the side of the Entente Powers, and during the negotiations, which lasted about eight months, he lent his good-will and powerful influence toward the establishment of an understanding. Instead of adopting the English point of view we accepted that dictated to us by Vienna. Count Mensdorff led the Triple Alliance in London and I was his second. * * *
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> On every point, including Albania, the Serbian harbors in the Adriatic, Scutari, and in the definition of the Albanian frontiers, we were on the side of Austria and Italy, while Sir Edward Grey hardly ever took the French or Russian point of view. On the contrary, he nearly always took our part in order to give no pretext for war—which was afterward brought about by a dead Archduke. It was with his help that King Nicholas was induced to leave Scutari. Otherwise there would have been war over this matter, as we should never have dared to ask 'our allies' to make concessions.
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> Sir Edward Grey conducted the negotiations with care, calm, and tact. When a question threatened to become involved he proposed a formula which met the case and always secured consent, he acquired the full confidence of all representatives.

He tells of the conciliatory attitude of the British Government in reaching an agreement as to territorial lines in Africa, and as to the Bagdad Railway. The agreement upon the railway, he says, aimed, in fact, at spheres of

influence in Asia Minor, "although this consideration was carefully avoided, out of consideration for the Sultan's rights." This treaty, which was practically ready for signatures, was arranged with the "effective co-operation of Herr Von Kuhlmann," who is now Foreign Secretary of the Imperial German Government, but notoriously viewed with suspicion by the military party.

During these critical years Prince Lichnowsky, himself earnestly desirous of promoting peace and completely satisfied that the British Government had the same purpose in view, labored to bring about a good understanding between the countries, but the policy of his home government made difficulties for him. He was sanguine, however, of success, and when in Germany, in June, 1914, after the assassination of the Austrian Archduke, he was confident there would be no war.

The Crisis, 1914.

I went to Silesia, and on my way back to London I spent only a few hours in Berlin, where I heard that Austria intended to proceed against Serbia, in order to put an end to an intolerable state of affairs.

Unfortunately I under-estimated at the moment the importance of the news. I thought that nothing would come of it after all, and that, if Russia threatened, the trouble could easily be composed. Now I regret that I did not stay in Berlin and say at once that I would have no share in any such policy.

Subsequently I learnt that at the decisive conversation at Potsdam on July 5 the inquiry addressed to us by Vienna found absolute assent among all the personages in authority; indeed, they added that there would be no harm if a war with Russia were to result. So, at any rate, it is stated in the Austrian protocol which Count Mensdorff (Austrian Ambassador) received in London. Soon afterwards Herr von Jagow was in Vienna, to discuss everything with Count Berchtold (Austrian Foreign Minister).

I then received instructions that I was to induce the English Press to take up a friendly attitude if Austria gave the "death-blow" to the Great Serbian movement and as far as possible I was by my influence to prevent public opinion from opposing Austria. * * *

I gave a warning against the whole project, which I described as adventurous and dangerous, and I advised that moderation should be recommended to the Austrians, because I did not believe in the localization of the conflict.

Herr von Jagow answered me that Russia was not ready; there would doubtless be a certain amount of bluster, but the more firmly we stood by Austria the more would Russia draw back. He said that Austria was already accusing us of want of spirit, and that we should not squeeze her. On the other hand, feeling in Russia was becoming ever more anti-German, and so we must simply risk it.

This attitude, as I learnt later, was based upon reports from Count Pourtalès (German Ambassador in Petrograd) to the effect that Russia would not move in any circumstances; these reports caused us to stimulate Count Berchtold to the greatest possible energy. Consequently I hoped for salvation from an English mediation, because I knew that Sir Edward Grey's influence in Petrograd could be turned to use in favor of peace. So I used my friendly relations with Sir Edward Grey, and in confidence begged him to advise moderation in Russia if Austria, as it seemed, demanded satisfaction from the Serbs.

The Serbian reply was in accordance with British efforts; M. Pashitch had actually accepted everything, except two points, about which he declared his readiness to negotiate. If Russia and England had wanted war, in order to fall upon us, a hint to Belgrade would have been sufficient, and the unheard-of (Austrian) Note would have remained unanswered.

Nothing But Goodwill Required.

Sir Edward Grey went through the Serbian reply with me, and pointed to the conciliatory attitude of the Government at Belgrade. We then discussed his mediation proposal, which was to arrange an interpretation of the two points acceptable to both parties. M. Cambon (French Ambassador in London), the Marquis Imperiali (Italian Ambassador in London), and I should have met under Sir Edward Grey's presidency, and it would have been easy to find an acceptable form for the disputed points, which in the main concerned the participation of Austrian officials in the investigation at Belgrade. Given good will, everything could have been settled in one or two sittings, and the mere acceptance of the British proposal would have relieved the tension and would have further improved our relations to England. I urgently recommended the proposal, saying that otherwise world war was imminent, in which we had everything to lose and nothing to gain. In vain! I was told that it was against the dignity of Austria, and that we did not want to interfere in the Serbian business, but left it to our Ally. I was told to work for "localization of the conflict."

Of course it would only have needed a hint from Berlin to make Count Berchtold satisfy himself with a diplomatic success and put up with the Serbian reply. But this hint was not given. On the contrary, we pressed for war. What a fine success it would have been!

After our refusal Sir Edward asked us to come forward with a proposal of our own. We insisted upon war. I could get no other answer (from Berlin) than that it was an enormous "conciliatoriness" on the part of Austria to contemplate no annexation of territory.

At another place in the memorandum he says:

During the critical days of July, 1914, Sir Edward said to me: "If ever you want something done in St. Petersburg you come to me regularly, but if ever I appeal for your influence in Vienna you refuse your support. * * *

Even after this Sir Edward Grey still looked for new ways of escape. He said to me repeatedly: "If war breaks out it will be the greatest catastrophe the world has ever seen."

Grey and Asquith Men of Peace.

The attacks upon Sir Edward Grey in the German press offended his sense of justice, and he gives a personal sketch of both Grey and Asquith, the British Prime Minister. Of Grey he says:

Sir Edward Grey's influence in all questions of foreign policy was almost unlimited. True, he used to say on important occasions:—"I must lay that before the Cabinet"; but it is equally true that the latter invariably took his view. * * *

Sprung from an old North of England family of landowners, from whom the statesman Earl Grey is also descended, he joined the left wing of his party and sympathised with the Socialists and pacifists. He can be called a Socialist in the ideal sense, for he applied his theories even in private life, which is characterized by great simplicity and unpretentiousness, although he is possessed of considerable means. All display is foreign to him.

His simple, upright manner insured him the esteem even of his opponents, who were more easily to be found in home than in foreign political circles.

Lies and intrigues were foreign to his nature. His wife, whom he loved and from whom he was never separated, died as the result of an accident to the carriage driven by him. As is known, one brother was killed by a lion.

Wordsworth was his favorite poet, and he could quote him by the hour. His British calm did not lack a sense of humour. When breakfasting with us and the children and he heard their German conversation, he would say, "I cannot help admiring the way they talk German," and laughed at his joke. This is the man who was called "the Liar Grey" and the "originator of the world war."

He has the following to say of Asquith:

Asquith is a man of quite different mould. A jovial, sociable fellow, a friend of the ladies, especially young and beautiful ones, he loves cheery surroundings and a good cook, and is supported by a cheery young wife. He was formerly a well-known lawyer, with a large income and many years' Parliamentary experience. Later he was known as a Minister under Gladstone, a pacifist like his friend Grey, and friendly to an understanding with Germany. He treated all questions with an experienced business man's calm and certainty, and enjoyed good health and excellent nerves, steeled by assiduous golf.

His daughters went to a German boarding-school and speak fluent German. We quickly became good friends with him and his family, and were guests at his little house on the Thames.

He only rarely occupied himself with foreign affairs. When important questions cropped up, with him lay the ultimate decision. During the critical days of July Asquith often came to warn us, and he was ultimately in despair over the tragic turn of events. On August 2, when I saw Asquith in order to make a final attempt, he was completely broken, and although quite calm tears ran down his face.

Summing Up Germany's Policy.

Prince Lichnowsky sums up the situation which led to war as follows:

"As appears from all official publications, without the facts being controverted by our own White Book, which, owing to its poverty and gaps, constitutes a grave self-accusation:

"1. We encouraged Count Berchtold to attack Serbia, although no German interest was involved, and the danger of a world war must have been known to us—whether we knew the text of the ultimatum is a question of complete indifference.

"2. In the days between July 23 and July 30, 1914, when M. Sazonoff emphatically declared that Russia could not tolerate an attack upon Serbia, we rejected the British proposals of mediation, although Serbia, under Russian and British pressure,

had accepted almost the whole ultimatum, and although an agreement about the two points in question could easily have been reached, and Count Berchtold was even ready to satisfy himself with the Serbian reply.

"3. On July 30, when Count Berchtold wanted to give way we, without Austria having been attacked, replied to Russia's mere mobilization by sending an ultimatum to St. Petersburg, and on July 31 we declared war on the Russians, although the Czar had pledged his word that as long as negotiations continued not a man should march—so that we deliberately destroyed the possibility of a peaceful settlement.

"In view of these indisputable facts, it is not surprising that the whole civilized world outside Germany attributes to us the sole guilt for the world war."

German Vice-Chancellor on Lichnowsky.

The Vice-Chancellor, in discussing the memorandum before the Reichstag Committee, said in part:

Some assertions in his documents must, however, be contradicted, especially his assertions about political events in the last months preceding the war. Prince Lichnowsky was not of his own knowledge acquainted with these events, but he apparently received from a third, and wrongly informed quarter, inaccurate information. The key to the mistakes and false conclusions may also be the Prince's overestimation of his own services, which are accompanied by hatred against those who do not recognize his achievements as he expected. The entire memorandum is penetrated by a striking veneration for foreign diplomats, especially the British, who are described in a truly affectionate manner, and, on the other hand, by an equally striking irritation against almost all German statesmen. The result was that the Prince frequently regarded Germany's most zealous enemy as her best friend because they were personally on good terms with him.

He characterized as false the statements that Von Moltke had urged war, that the then Foreign Secretary had visited Berlin in 1914, and that the German Ambassador at Petrograd had reported that Russia would in no event move.

Von Jagow's Reply.

Herr Von Jagow, German Foreign Secretary in 1914, has issued a statement commenting upon and denying some of the statements of Prince Lichnowsky's paper, among them that he visited Vienna in 1914. After taking account of these, however, his admissions must be regarded as more important. He confirms, "as far as he remembers," the expressions quoted from him. The reply is chiefly in defense and vindication of himself. Of the Bagdad railway negotiations he says:

When, in January, 1913, I was appointed Secretary of State I regarded a German-English *rapprochement* as desirable, and an agreement about the points at which our interests touched or crossed as obtainable. In any case I wanted to try to work in this sense. A main point for us was the Mesopotamia-Asia Minor question—the so-called Bagdad policy—because it had become for us a question of prestige. If England wanted to push us out there, a conflict seemed, indeed, to me to be hardly avoidable. As soon as possible I took up in Berlin the settlement about the Bagdad Railway. We found the English Government ready to meet us, and the result was the agreement which had almost been completed when the world-war broke out.

At the same time the negotiations about the Portuguese colonies, which had been begun by Count Metternich and continued by Baron Marschall, were resumed by Prince Lichnowsky. I intended to begin later on—when the Bagdad railway question, in my opinion the most important question, had been settled—further agreements about other questions, in the Far East, for example.

Referring to Prince Lichnowsky's policy of developing closer relations with England, instead of backing up to the limit the aspirations of Austria in the Balkans, he says:

I also pursued a policy which aimed at an agreement with England, because I was of the opinion that this was the only road by which we could get out of the unfavorable situation into which the unequal distribution of strength and the weakness of the Triple Alliance had brought us.

"Political marriages until death us do part" are, as Prince Lichnowsky says, impossible in international relations. But in the existing state of affairs in Europe isolations are equally impossible. The history of Europe is composed of coalitions, some of which have led to the avoidance of wars and some to violent conflicts. A loosening and final dissolution of old unions which no longer satisfy all the conditions cannot be recommended until new constellations are within reach. That was the aim of our policy of *rapprochement* with England. As long as this policy did not provide trustworthy guarantees we could not abandon the old securities—and the obligations which they involved.

The extreme policy of Germany in supporting Austria is partially explained in this paragraph:

Our Morocco policy had led to a political defeat. Happily this had been avoided in the Bosnian crisis, and at the London Conference. A fresh diminution of our prestige was intolerable for our position in Europe and in the world. The prosperity of States, and their political and economic successes, depend upon the prestige which they enjoy in the world.

Herr Von Jagow is fair enough to add his testimony to that of Prince Lichnowsky, as to Sir Edward Grey's desire to maintain peace. He says:

I am by no means willing to adopt the opinion, which is at present widely held in Germany, that England laid all the mines which caused the war; on the contrary, I believe in Sir Edward Grey's love of peace and in his serious wish to reach an agreement with us. But he had involved himself too deeply in the net of Franco-Russian policy. He could no longer find the way out, and he did not prevent the world-war—as he could have done. Among the English people also the war was not popular, and Belgium had to serve as a battlefield.

Just what more Sir Edward Grey might have done to avert the war Von Jagow does not say, but presumably he means that the British Minister might have persuaded Serbia to yield unconditionally, or Russia to refrain from intervening in Serbia's behalf. What he says corroborates the main statements of Lichnowsky's paper.

The Pan-German newspapers of Germany are demanding that Prince Lichnowsky shall be tried for treason. The Socialist papers give weight to his statements. The *Vorwaerts,* although now supporting the government, says that the efforts to discredit Lichnowsky's ability and discernment merely means that the most important Ambassadorial post that Germany had at her disposal was occupied by a fool and a blockhead.

The *Mannheime Volkstimme* says that "either Prince Lichnowsky is the most incurable idiot who ever sat in an ambassador's chair, or else not a shred remains of the fiction that the outbreak of war was caused by English intrigues."

An Historical Document of the First Importance.

There is no possible answer to this comment, and no room to question that the Lichnowsky memorandum is an historical document of the first importance. The explanation that he was disappointed and aggrieved because the Berlin government did not accept his view as to the policies to be pursued, does not break the force of his statements. As an honest man sincerely desirous of promoting peace among the nations of Europe, he had good reason to feel indignant and for wishing to put on record for the future an account of his Ministry. If there are inaccuracies as to minor details, such as Von Jagow's visit to

Vienna, concerning which he doubtless believed himself well informed, they do not affect the validity of the main account, or the sincerity of his purposes. Compared with the monstrous falsehoods about the origin of the war, which have been imposed upon the people of Germany, his story is the veritable truth, supported by abundant evidence. Together with Herr von Jagow's reply it should be placed in every home in the United States. It is a complete answer to the insidious pro-German propaganda which has been widely circulated, and which has misled many credulous persons of anti-British proclivities. It is of the utmost importance that our people have a full appreciation of the responsibility which belongs to the German Government for bringing on this war.

Testimony From A Krupp Director.

In the same speech before the Reichstag Committee, in which Vice-Chancellor Von Payer discussed the Lichnowsky memorandum, he also referred to a letter written by a Dr. Muhlon, a German of high social and business standing now living in Switzerland, but who at the outbreak of the war was a director in Krupps. Notwithstanding his connection with the great gun works, Muhlon seems to have comprehended the awful crime against humanity involved in wantonly bringing on the war. His statement, in part, was as follows:

In the middle of July, 1914, I had, as I frequently had, a conversation with Dr. Helfferich, then director of the Deutsche Bank in Berlin, and now Vice-Chancellor. The Deutsche Bank had adopted a negative attitude towards certain large transactions in Bulgaria and Turkey, in which the firm of Krupp, for business reasons—delivery of material—had a lively interest. As one of the reasons to justify the attitude of the Deutsche Bank, Dr. Helfferich finally gave me the following reason:—

"The political situation has become very menacing. The Deutsche Bank must in any case wait before entering into any further engagements abroad. The Austrians have just been with the Kaiser. In a week's time Vienna will send a very severe ultimatum to Serbia, with a very short interval for the answer. The ultimatum will contain demands such as punishment of a number of officers, dissolution of political associations, criminal investigations in Serbia by Austrian officials, and, in fact, a whole series of definite satisfactions will be demanded at once; otherwise Austria-Hungary will declare war on Serbia."

Dr. Helfferich added that the Kaiser had expressed his decided approval of this procedure on the part of Austria-Hungary He had said that he regarded a conflict with Serbia as an internal affair between these two countries, in which he would permit no other State to interfere. If Russia mobilized, he would mobilize also. But in this case mobilization meant immediate war. This time there would be no oscillation. Helfferich said that the Austrians were extremely well satisfied at this determined attitude on the part of the Kaiser.

When I thereupon said to Dr. Helfferich that this uncanny communication converted my fears of a world-war, which were already strong, into absolute certainty, he replied that it certainly looked like that. But perhaps France and Russia would reconsider the matter. In any case the Serbs deserved a lesson which they would remember. This was the first intimation that I had received about the Kaiser's discussions with our Allies. I knew Dr. Helfferich's particularly intimate relations with the personages who were sure to be initiated, and I knew that this communication was trustworthy.

After my return from Berlin I informed Herr Krupp von Bohlen and Halbach, one of whose directors I then was at Essen. Dr. Helfferich had given me permission, and at that time the intention was to make him a director of Krupps'. Herr von Bohlen seemed disturbed that Dr. Helfferich was in possession of such information, and he made a remark to the effect that the Government people can never keep their mouths shut. He then told me the following. He said that he had himself been with the Kaiser in the last few days. The Kaiser had spoken to him also of his conversation with the Austrians, and of its result: but he had described the matter as so secret that he (Krupp) would not even have dared to inform his own directors. As, however, I already knew, he could tell me that Helfferich's statements were accurate. Indeed, Helfferich seemed to know more details than he did. He said that the situation was really very serious. The Kaiser had told him that he would declare war immediately if Russia mobilized, and that this time people would see that he did not turn about. The Kaiser's repeated insistence that this time nobody would be able to accuse him of indecision had, he said, been almost comic in its effect.

This is circumstantial, corroborative of the Lichnowsky statements, and in harmony with all the known facts. What Herr Von Jagow says about the loss of German prestige in the Morrocco case throws light upon what Dr. Muhlon says of the Kaiser's almost comic insistence that nobody would be able to accuse him of indecision this time. There is an accumulation of evidence that the situation, instead of developing suddenly while the Kaiser was innocently absent on a yachting trip, had been carefully planned in conference by the responsible authorities of Germany and Austria-Hungary. The time was judged to be ripe to extend the German-Austrian influence in the Balkan States, thus opening up the way to Asia Minor, where Germany's ambitions in recent years had been centered. The assassination of the heir to the Austrian throne provided the occasion, Russia was not ready for war, England probably would not come in, and, in the words of the German Foreign Secretary, "We must simply risk it."

This is the inner history from German sources of the beginning of the war, which the German Government represents as brought on by England and inspired by trade jealousy.

Von Payer's comment upon the Muhlon disclosures was that the gentleman was suffering from neurasthenia, and that no attention need be paid to his statements since the important gentlemen quoted by him denied having made the statements attributed to them.

War At the Crisis.

The German attack, which began on March 21, has continued with slight relaxations of intensity ever since. More men have been in action than at any other time of the war, and the casualties upon both sides have been very large. There is every reason to believe that they have been heavier to the attacking forces than to those on the defensive, since although the latter have lost ground, they have not been demoralized, but have retired in orderly manner. Such wastage as the German armies are now suffering must hasten the end of the war, for it cannot be made good or kept up for an indefinite period. Unquestionably, the German war council has set out to smash the Allied line now, before the United States troops arrive in force, and every possible resource is being used. This is the crisis of the war, for while Germany is sacrificing her divisions the Allies are growing stronger. If Germany cannot win now how can she hope to do so later, with fewer men and with an American army of 5,000,000 or 10,000,000 men added to the armies of the

Allies, and the steel-making capacity of this country, which alone is twice that of Germany, devoted almost wholly to war materials?

The German people have been greatly inspirited by the conclusion of peace with Russia upon terms which, if they stand permanently, will largely enhance the military and industrial power of the German Empire. Evidently there has been a revival of confidence in the ability of the military autocracy to produce results. There is a marked reaction from the state of mind represented by the Reichstag resolutions of last July, in favor of peace without indemnities or annexations. The Pan-Germans are aggressive again, urging the repeal of the July resolution, and the Liberals are silent. The Socialistic organ, *Vorwaerts,* commenting on the resolutions adopted recently by the Inter-Allied Socialist Conference, in London, says:

> The time for such more or less academic considerations is past. All Socialistic effort must be concentrated upon a peace which is tenable and bearable for all. And why should it be unbearable for England, France, Belgium and Italy if a peace were concluded which restored *in the main* the pre-war conditions *in the West?* In any case they would do well to remember that a programme is unworkable as a practical peace programme which is drawn up beforehand to the disadvantage of the Central Powers. Such a programme could not be realized either by an international Socialist Congress or by a diplomatic conference, but *only by the victory of the Entente.*

If this is representative of the element in Germany which is most antagonistic to the military domination, it may be judged how slender at present is the prospect for peace upon any basis that will give security to the non-German world. The military autocracy has been established in Germany by successful aggression. The country has gained in territory, wealth and power by its attacks in the past upon Denmark, Austria and France, and with every peace dictated by the sword the military party is more firmly seated at home and a greater menace abroad. If this war should end with a treaty based upon the theory that Germany is the victor, the other countries will have no alternative but to prepare upon a greater military scale than ever before for defense against the next attack. The invasion of Belgium, the memoirs of Prince Lichnowsky, the expressions of Von Jagow and the Emperor upon the subject of German "prestige," show this conclusively. The only way security can be had against the party now in the saddle in Germany is indicated by *Vorwaerts*—"by the victory of the Entente." The people of Germany must be convinced that militarism will no longer bring more territory, larger markets and greater prosperity. There never will be a better time than now to determine whether or not militarism is to rule the world.

America's Activities Quickening.

The situation in France has stimulated the activities of this country. Vessels have been pressed into service and it is no secret that troops are going forward rapidly. As fast as they leave the training camps more men are called to the colors, more cantonments will be built, and men will go across as fast as transportation can be provided. The shipping situation is looking better. The yards are well manned, conditions are more settled, proficiency is improving as the workmen gain experience, and now that Charles M. Schwab has been drafted to head the work, confidence is felt that the period of divided authority and confusion is over, and that really great achievements are to come. After a few more months, when the launchings from the big new yards begin, ships will come forward in a rapidly increasing stream.

Concentrating on War Work.

The entire industrial situation is coming into more satisfactory shape, as war work assumes its proper proportions, and production for ordinary consumption shrinks correspondingly. The country is being organized to the one great purpose which is now supreme. Less than a year ago people were arguing that the war requirements could be met by speeding up and enlarging the capacity of the industries, allowing other consumption to go on as usual. It was even said that five or ten per cent. of the capacity of the steel works, and about the same share of the capacity of the textile mills, would take care of the war requirements, but today it is realized that the government can use practically the entire capacity of the steel industry, all of the woollen mills, and a very large percentage of the cotton goods capacity, and all of the man-power that can be possibly had. Not one day's work can the country afford to spare to unnecessary things while the line wavers in France. Non-essential industries, and relatively unimportant ones, are being converted to important work. Through the reorganized War Industries Board the guiding hand of the Government is reaching into every locality and every business and co-ordinating all agencies to the task in hand. This is as it should be and must be, for the result of the war will depend upon superiority in industrial concentration. Germany is ruthlessly shutting down small works and concentrating machinery and labor where it can be used to the best advantage. Recent figures show that of 1,700 weaving and spinning mills only 70 are still working at high pressure, in the boot and shoe industry 300 factories are all that remain out of 1,400, and in the oil industry 15 establishments out of 720. Of course these reductions are not wholly due to concentration; a shortage of raw materials is largely responsible.

Between now and the opening of another winter it is expected that the facilities and methods of transportation will be very much improved. The co-ordination of the railways will be worked out, terminal conditions will be bettered, cars will be built, and the water lines will be brought into use. The new Erie Canal is now open in practically its entire length, and has been taken over by the Federal authorities for use in con-

junction with the rail lines, barges will be constructed, and lake and river lines established in the middle West. All this is work which will not show immediately on the battle front in France, but ultimately the effects will tell there. Moreover, permanent benefits will surely result.

The Country United.

The best of all signs are those which tell of growing unity and resolution of purpose among the people. The gravity of the conflict, the cost in young life each day, the importance of putting our full powers into it, are coming home to the people. They are seeing that it is not to be settled by mere pacifist speeches or conventions. It must be fought out to either victory or defeat—to supremacy for the ideas which America represents, or supremacy for the German military power. When this is fully accepted, as it is rapidly coming to be, the real power of this country will come into action.

Labor conditions are better. There is a spirit of emulation and enthusiasm in the shipyards which is prophetic, and patriotism is a dominant note. A national industrial board of mediation and conciliation, composed of six employers, six representatives of labor and two representatives of the public has been created in Washington, and has agreed upon certain principles which it will endeavor to have recognized as the basis of industrial peace during the war. The most important condition is that all controversies shall be arbitrated without cessation of work. Lessons are likely to be learned from this experience that will be of lasting value in the promotion of industrial harmony. The heads of the labor organizations are agreed to the arrangement and there is no reason to doubt that they are sincerely and loyally supporting the Government, and alive to the issues of the war. Allowance must be made for some of the difficulties with which they are contending in dealing with great bodies of men, many of whom are not as well informed as themselves.

Bond subscriptions for the Third Liberty Loan among the wage-earners are more general than for any of the preceding loans. The causes of the war, the reasons why this country entered it, the vital interests of all classes in victory, are becoming daily more clearly understood, but there should be no relaxation of the efforts to make them known.

Germany's World of Enemies.

The relations between Holland and Germany are very much strained, and the attitude of Sweden toward Germany is one of alarm, owing to the arrival of German troops in Finland and on the Aland Islands. There is fear that Finland, with which the relations of Sweden are naturally intimate, and through which Sweden has access to Russia, may become a mere dependency of Germany. The Conservative party of Finland, represented by the White Guard, admits applying to Germany for aid against the Red Guard, which represents the Bolsheviki element, but claims that it applied to Sweden in vain and had recourse to Germany because help for the maintenance of order could be had nowhere else. The White Guard and its German allies, not content with fighting the Red Guard, are attempting to seize the Russian peninsula upon which is located the open port of Kola, which is connected with Petrograd by the newly constructed railway, but British and French troops have been landed there to defend the territory and probably to prevent stores at Kola from falling into German hands.

The relations between Uruguay and Germany are at a critical stage, owing to a recent violation of neutral rights on the high seas by a German submarine. The attitude of the Argentine Government continues sympathetic to the United States and hostile to German policies, but so far the German Government by compliance with Argentine demands has averted a declaration of war. Brazil is fully into the war, has leased the German ships seized in its harbors to France, its navy is doing patrol duty, has passed a conscription law, and has in training an army which will probably be sent to France before long. A commission of army engineers is now in this country buying army equipment and supplies. All the other countries of South and Central America are sympathetic toward the course pursued by the United States.

Russia, although unable to help itself at present, is boiling with resentment for the indignities imposed upon the country by Germany, and the loss of territory will be a lasting grievance. There is continual friction with the German officials in the Ukraine and occupied provinces, and whenever Russia is in position to exert her national strength there will be another chapter added to the late peace negotiations.

Third Liberty Loan.

At this writing the Third Liberty Loan, for $3,000,000,000 and over-subscriptions, is in its last week. The subscriptions have come more readily in the smaller cities and rural communities than heretofore, a fact which may be attributed in part to better organization and in part to a better general comprehension of the national effort called for by the war. The Minneapolis district, which failed to raise its quota of the first loan, completed its quota for the third loan in the first week, and will go over it by 50 per cent. or more. The change in the attitude of the foreign-born population is marked. The ninth district of the City of Minneapolis, of which the population is ninety per cent. of foreign blood, subscribed $60,000 to the Second Loan after a full month of canvassing, and $375,000 in the first week of the Third Loan. These sums are mainly in $50 and $100 subscriptions. The small towns and farming dis-

tricts in the Middle West are reported as generally over their quotas for this Loan.

We take this to mean that the people are now satisfied that the United States is rightfully in the war, and are rallying to the support of their sons who are on the way to France. The ideas which had a certain currency in the early days of the war, that it was no affair of ours, that it was only a quarrel among the royalties of Europe, that it was promoted by Wall Street and munition manufacturers, all of which were countenanced for a time by persons who should have known better, have been dissipated. It is realized that the modern world is too small for the United States to be remote and detached from any struggle in which fundamental public rights are involved.

New York City is behind the record made in the other two loans, which is due in part to the fact that many corporations and individuals having their offices in this city and which have heretofore entered their subscriptions here are this time subscribing where their works or residences are located. This is the result of close canvassing elsewhere. The heavy income and excess profits taxes which must be paid next month are also affecting the large subscriptions. Men in business, although their books show taxable profits, find it difficult to spare money from working capital. The railway companies are affected by their new situation, and by the low earnings of the winter months. Finally, many of the large subscribers to the previous loans borrowed freely for their payments, have not liquidated this indebtedness and feel constrained to catch up. Neverthless it is believed that every Federal Reserve district will show an oversubscription.

Money Market.

Time money is on a 6 per cent. basis and the market is without unusual features. Call money has ranged from 2 to 6 per cent. during the month, with 4 to 5 as the common range. Considering the heavy payments in sight, for the Liberty Loan and taxes and the enormous turnover in trade and industry, the situation is easier than might be expected, but this is explained by the increased resort to the Federal Reserve banks. The gain in freight deliveries and increased marketing of grain and live stock since the 1st of March has promoted a more rapid movement of funds. There is a good distribution of commercial paper the country over, and current requirements of money seem to be satisfactorily met.

The Federal Reserve banks have taken care of the commercial loan expansion this spring. At the opening of the campaign for the Second Liberty Loan early last October, the total earning assets of the Federal Reserve banks were $580,851,000. They rose from that to $1,081,022,000 on December 21, by which time the loan was mainly paid up, then gradually declined to $951,989,000 on February 15, from which they had risen to $1,286,162,000 on April 26. The loans and investments of the member banks reporting to the Federal Reserve Board, other than those secured by government obligations, aggregated $9,985,734,000 on April 19, which compares with $9,574,074,000 on December 28, and $9,941,331,000 on March 1. But while the member banks have been keeping down their holdings of loans to customers (by re-discounting at the Federal Reserve banks) they have been increasing their holdings of government securities from $891,626,000 on December 28 to $2,106,770,000 on April 19. The latter consist chiefly of certificates of indebtedness, which will be paid off out of the proceeds of the Third Liberty Loan, but that operation will probably involve a further increase of individual loans. There is no dodging the fact that these figures show continual expansion. The total earning assets of the twelve Federal Reserve banks in April, 1917, were about $225,000,000.

Of course, this increase of loans is accompanied by an increase of deposits, and it is surprising how many persons, even among bankers, comment upon increasing deposits under these conditions as a favorable sign. They argue from increasing deposits an increasing ability to make loans, although every banker must know from his own experience that these deposits are due to the growth of the loans. It is an obvious fallacy to suppose that deposits which are created by loans increase the capacity of the banks to make more loans. A bank customer borrows and takes credit in his account; he checks the sum out in the course of business and his check becomes a deposit in another bank; the same thing is going on in tens of thousands of instances, and the volume of bank deposits is swollen in each instance, and remains swollen except as drawn upon to pay off bank loans. The latter action constitutes the only method by which this process of inflation is counteracted.

This increase of bank deposits is not a matter for congratulations. It means inflation, a corresponding increase of prices, higher war costs, and a greater indebtedness to be paid off after the war.

The Bond Market.

Following the record-breaking days in Liberty bonds recorded during the last week of March, the April bond market opened relatively firm but with only moderate activity, This was anticipated, as the Third Liberty Loan has absorbed the attention of the bond houses during the month, their entire organizations having devoted their energies to the successful flotation of the Loan. No new issues of importance have been offered but short-

ly after the close of the Liberty campaign several new issues are anticapated, as it has been reported that the Capital Issues Committee approved $33,000,000 of securities during the week ending April 15.

In spite of the German drive, which has brought us discouraging news from week to week, prices generally have remained firm with advances in many issues, though the market has been generally dull. New York City issues in general suffered declines, and Deputy Comptroller Philbin announced the sale of $5,000,000 New York Revenue Bills on a 4.875% basis compared with the sale of $8,000,000 on March 12 on a 4.79% basis.

French municipal issues were the outstanding feature of the general advance, while public utilities registered their first improvement of the year.

The third week of the month found the stock market active and firm, with specialties enjoying substantial advances. Liberty 3½s were stronger and the First and Second 4s advanced about ½% but did not reach their high figures of March.

There has been little liquidation during the progress of the Loan and few offerings are pressed for sale. A continuance of this condition should undoubtedly result in an upward swing in bond prices during May, if the Liberty Loan is substantially over-subscribed.

The average price of 40 standard issues as reported by the *Wall Street Journal* on April 29, was 83.61, which shows an advance of .64 compared with 82.97 on March 28, and a decline of 8.39 compared with the price of 92.00 on April 29, 1917.

Foreign Exchanges.

The long-contemplated measure to permit the melting of silver dollars, for the purpose of increasing the supply of silver bullion available for the settlement of foreign exchange balances, finally passed Congress almost without opposition, the provisions having been so adjusted that no permanent change in the country's monetary system is effected. The number of dollar pieces which may be released is 350,000,000, and the resulting billion may be sold by the Secretary of the Treasury at not less than $1 per fine ounce of silver contained, but upon every such sale the Secretary is directed to immediately instruct the Director of the Mint to purchase an equal amount of fine silver bullion, the product of mines located in the United States and of smelting works so located, at the fixed price of $1 per ounce, the said silver to be coined to replace the dollar pieces melted. In case the market price should rise above $1 per ounce purchases evidently will be postponed.

No silver dollars may be melted except as silver certificates which may be outstanding against them, are retired, and in order to avoid any contraction of the currency supply the Federal Reserve banks will be permitted or required by the Federal Reserve Board to issue Federal Reserve bank notes in amount equal to the silver dollars melted, these notes to be secured by United States Treasury Certificates or one year gold notes. These new bank notes must be retired when and as new silver dollars are coined to replace the dollars melted. The provisions as to reserve which have heretofore applied to Federal Reserve bank notes will apply to these notes, and are the same as for national bank notes.

This act adds the equivalent of nearly two years' production of silver at the present rate to the world's stock, and will enable this country to settle trade balances in favor of India and other silver-importing countries.

Abnormal Exchange Conditions.

The high price of silver is causing an export movement of silver coin from the countries of Central and South America and Mexico which threatens to denude them of coin for local trade uses. Large quantities are being received at the United States Assay Office in this city. Another novel feature is a premium upon gold for exportation to certain countries. Under the United States embargo regulations gold imported into this country in the form of ore may be re-exported to the country from whence it was received, and the demand for means of remittance to those countries has placed this gold at a premium.

The United States Government is understood to have negotiations under way with several countries looking to the support of dollar exchange. We have heretofore mentioned the granting of extensive credits by Argentina to Great Britain, France and the United States. Brazil has granted a large credit to France and Uruguay has granted one to Great Britain. An arrangement having official approval has been effected by which a committee of Spanish bankers and merchants will grant credits to a similar organization of Frenchmen at the rate of about $7,000,000 per month, in the form of drafts running ninety days and renewable for two years. An arrangement similar to this has been in effect for some months between France and Switzerland, and another has been announced recently between England and Switzerland.

Just at this time the exchange situation between the United States and Spain is more unfavorable to the dollar than at any time heretofore, although it has been unfavorable for two years. The par of the Spanish peseta is 19.3 cents, and for years prior to the outbreak of the war the paper and silver pesetas were below par, but the exchange rate last month was as high as 30, and is now about 27½ or at a premium of about 50 per cent.

These conditions are abnormal, and due to the unbalanced state of trade, but there are persons who insist upon holding bankers and exchange dealers responsible. When there is no restraint upon shipments of gold, and transportation and insurance charges are normal, exchange rates seldom exceed by more than a fractional percentage the cost of shipping gold, and are usually below it, but with an embargo upon the movement of gold the establishment of a credit in a country like Spain is a difficult matter.

Spanish Exchange.

There is evidently much misapprehension upon this subject. It is commented upon as a very simple matter, involving "only the transfer of credit," as though it was something that could be handled wholly from here. But credit must be granted in Spain; arrangements must be effected with responsible parties in Spain by which they will assume and pay the debts owing there. Spain is not normally a creditor nation, and not accustomed to granting credits to foreigners running into tens of millions of dollars. London does not readily obtain such credits there, nor does the United States, and if obtained at all it must be on the terms dictated in Spain.

The discount upon dollar credits in Spain is due to the close relation existing between the dollar and the pound sterling. The trade between Spain and the United States yields a balance favorable to the latter, but the trade between England and Spain is heavily against England, and since the pound sterling is artificially supported in New York it is possible for Madrid to convert its sterling credits into New York exchange thus enabling it to sell dollars. This situation has prompted some persons to say that arbitrage transactions, as such operations are called, should be forbidden, but arbitrage transactions on the whole effect great economies in international trade. The process of "clearing," by which all of the banks within a given territory settle with each other through a clearing-house, illustrates the principle of arbitrage trading in exchange. It is simply a shifting of international debits and credits to accomplish their settlement in the easiest manner.

Italian Exchange.

In our relations with Italy the situation is reversed from what it is in our relations with Spain. The mint par of the Italian lire in United States money is the same as that of the French and Swiss franc and the Spanish peseta, 19.3, but while peseta drafts have been selling in the last few days at better than 4 pesetas to the dollar, lire drafts have sold as low as 9 lire to the dollar. This shows the degree of confusion and disorganization which exists, and all because the free movements of the money metals are suspended, and no international medium of exchange exists.

A glance at the records of trade between the United States and Italy will show why exchange rates between these countries are demoralized. For the eight months ending with February exports from this country to Italy aggregated $321,895,704, while imports from Italy aggregated $20,611,789. For the corresponding months of the previous year exports were $228,292,810 and imports $32,116,168, and in 1915-16 our exports were $181,361,820 and imports $34,313,684. For the month of February last our exports were $38,178,836, as compared with $16,661,196 in corresponding month last year, and our imports $1,904,962, as compared with $2,351,837. It will be seen that Italy has been steadily and heavily increasing her purchases in this market and at the same time sending us fewer and fewer goods.

If Italy had favorable balances in her trade with other countries they might be converted by arbitrage transactions to offset these adverse balances here, but she has none that can be so used. Italians in this country are steady buyers of Italian exchange, but their remittances will not take care of a situation like this. The United States government has loaned important sums to Italy, but not enough to balance the trade account. The Italian government has taken several steps to regulate the situation, as by requiring all exchange transactions to be subject to the supervision of a government board, and recently forbidding transactions in futures. The latter creates a very serious obstacle to trade. An American exporter taking an order in Italy today will base his prices upon the relation of the lire to the dollar, but he will not dare to take an order in terms of lire unless at the time of taking the order he can arrange for converting lire into dollars.

It is perfectly evident that Italy cannot continue to buy in this country as she has been buying in the last year, unless credits are created here by which payments can be made, and in the present state of affairs there is only one possible source for such credits.

Government Assistance Necessary.

In such times as these international credits upon the scale required can only be arranged by governmental assistance. How else can a trade balance of $300,000,000 in a year between Italy and the United States be managed? The credits granted by the government of Argentina to the governments of Great Britain, France and the United States aggregate $240,000,000. This sum represents accruing trade balances; it is due, or will be due, to private citizens of Argentina, and their government undertakes to pay them and receive reimbursements later from the governments in whose favor the credits are granted. Eventually the exchanges will come into balance again, large sums will be owing in London and Paris upon capital employed in Argen-

tina, and these advances will probably be liquidated without the movement of gold, but meanwhile mutual interests are served by the establishment of these credits. Argentine products could not be sold unless means of payment were provided.

At this writing the Argentine credit arranged for two months or so ago, in favor of the United States is exhausted, and exchange rates are slightly more unfavorable to this country, although sustained by an expectation that an additional credit will be granted.

In our relations with Uruguay the situation is worse, with the dollar at a discount of about 20 per cent. Negotiations are pending there.

Canadian Exchange.

The balance of trade between Canada and this country is so largely in favor of the latter that New York drafts are at a premium of about two per cent. in Montreal. The Canadian government is considering an embargo upon certain importations from this country as a means of restoring the balance, unless a credit can be established here. The Prime Minister, Sir Robert Borden, and Finance Minister, Sir Thomas White, are in this country for conferences in this city and Washington to determine what shall be done. Canada's problem in this instance is similar to ours with Argentina and Uruguay, and the remedy would seem to be a grant of credit by Washington or a shift of credit from London, as the balance between London and Montreal is understood to be in favor of the latter.

War Saving Stamps.

The sales of War Savings and Thrift stamps for the first 25 days of April aggregated $53,838,215, or an average of $2,153,528 per day. The sales are steadily increasing as the working organization is extended. The State of Nebraska, under the leadership of Mr. Ward Burgess of

STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS APRIL 26, 1918.

(In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco	Total
Gold coin and certificates in vault	9,833	340.841	9,185	30.539	6,435	6,833	28,676	1,762	16,423	235	4,958	31,100	436,828
Gold Settlement Fund	69,868	85,774	43,393	49,733	11,156	16,680	71,325	17,179	13,180	33,567	10,345	17,277	439,477
Gold with foreign agencies	3.675	18.112	3,675	4.725	1.837	1.575	7.350	2.100	2,100	2,625	1,838	2,888	52,500
Total gold held by banks	83,376	444,727	56,253	84,997	19,428	25,088	107,351	21,041	31,703	36,427	17,141	51,265	978,797
Gold with Federal Reserve Agents	48.211	208,827	82,744	92,292	29,880	33,832	138.432	33,408	35,489	45,158	14.261	62.084	824,218
Gold Redemption Fund	1.997	10.000	2.500	397	1,028	1,409	1,571	1,542	1,311	813	1,263	154	[illegible]
Total gold reserves	133,584	663,554	141,497	177,686	50,336	60,329	247,354	55,991	68,103	82,208	32,665	113.503	1,827,000
Legal tender notes, Silver, etc.	2 074	47.484	1.450	763	393	1.102	5.069	1.888	361	292	2.709	360	63,945
Total Reserves	135.658	711,038	142.947	178,449	50.729	61,431	252,423	57.879	68.464	[illegible]	35 374	113,863	1.890 945
Bills discounted, Members	54,307	434,256	35,351	58,212	47,333	20.851	88,553	43,656	14,591	43,912	26.167	34,9?9	902,188
Bills bought in open mark't	16.606	121,027	26,303	20,628	5 177	8.552	48,002	11.381	11,546	7,132	4 555	21.490	302,399
Total bills on hand	70,913	555,283	61,654	78,840	52,510	29,403	136,555	55,037	26,137	51,044	30,722	56,489	c 1,204,587
U. S. Governm't long-term securities	861	1,594	2,029	7,788	1,233	727	7,684	2,233	2,005	8,862	3,969	2,461	41,446
U. S. Governm't short-term securities	1,421	2,319	4,163	11,004	1,523	1,226	4,072	511	1,934	4,645	2.632	1,957	37.407
All other earning assets						133	430	291	301	121	1.349	97	2,722
Total Earning Assets	73,195	559,196	67,846	97,632	55.266	31.489	148.741	58,072	30,377	64,672	38,672	61,004	1,286,162
Due fr. other F. R. Bks. net	18		7,393		1,345	3,365	16.349		3,931	3,148		8 573	b 10.314
Uncollected Items	21.446	87,194	39.242	32.552	25.631	19,974	49.821	31,622	7.797	25,371	20.711	17,170	378.531
Total deduction from gross deposits	21,464	87,194	46.635	32,552	26,976	23,339	66,170	83,622	11.728	28,519	20,711	25,743	388,845
5% redemption fund against F. R. bank notes										391	137		528
All other resources			356			3							359
TOTAL RESOURCES	230 317	1,357.428	257,784	308.633	132 971	116.262	467.334	147.573	110.569	176.272	[illegible]	200.610	3,566.839
LIABILITIES													
Capital Paid in	6,444	19.699	6,909	8.504	3,792	2,964	9,711	3,509	2,765	3,444	2,917	4,305	74.963
Surplus	75	649			116	40	216		38				1.134
Government Deposits	12,858	8,448	9,408	19,050	7,069	4,496	17,767	11,273	6,037	10,459	3,605	20,198	[illegible]
Due to members—reserve account	91,586	667 602	88,452	112.321	41,680	37.802	186.812	51,105	41.235	70,758	39,513	67,545	1,497,416
Collection Items	17,088	52.733	31,939	24.041	17,638	12,405	22,638	19,316	5,508	11,526	8,802	11.540	235,174
Due to other F. R. Bk's net		25,074		3,542				961			4,231		
Other deposits incld'g For. Government credits		75.815		178		11	2.077	39	22			3.745	81,890
Total Gross Deposits	121,532	829,672	129.799	159,132	67,387	54,717	229,294	82,694	52,802	92,743	56,156	103,028	1,945,148
F. R. Notes in actual circulation	101,467	500,510	121,076	140,236	61,580	58,541	227,155	60,867	54,731	71,330	[illegible]	[illegible]	a 1,526,232
F. R. Bank Notes in circulation, net liability										7,895			7,895
All other Liabilities incl. Foreign Govern't credits	799	6,768		761	96		958	503	233	860	199	290	11.467
TOTAL LIABILITIES	230,317	1,357.428	257,784	308,633	132.971	116 262	467.334	147.573	110,569	176.272	91.894	200.610	3.566.839

(a) Total Reserve notes in circulation, 1.526.232.
(b) Difference between net amounts due from and net amounts due to other Federal Reserve Banks, 10.314: Ratio of gold reserves to net deposit and Federal Reserve note liabilities combined 59.3%. Ratio of total reserves to net deposit and Federal Reserve note liabilities combined 61.3%.
(c) Bills discounted and bought: U. S. Government short term securities; municipal warrants, etc.: 1—15 days 678,823; 16—30 days 200,839; 31—60 days 222,296; 61—90 days 112,885; over 90 days 27,685. Total 1,242,548.

Omaha, leads all other states, having taken to April 1st $14,343,991 of stamps, against $12,273,783, by New York, the second State. Nebraska has bought an average of $11.06 for every man, woman and child in the State, which sets a high mark for others to aim at. It is evidently going to raise its quota of the $2,000,000,000 issue with ease.

Great Britain's Effort.

We gave last month a forecast of the figures for the British Government's fiscal year, which ended March 31st, but the complete figures are now available and are sufficiently remarkable to merit a re-statement. The total expenditures for the year, including loans to allies, were $13,450,000,000, and the revenues $3,536,172,000, leaving a deficit of approximately $9,914,000,000, which was raised by various forms of borrowing. The national debt at the end of the year was $29,401,000,000.

The Chancellor of the Exchequer has submitted to Parliament his budget for the new year. The estimated expenditures are $14,860,985,000; revenues, including new taxation, $4,210,250,000, balance to be raised by loans, approximately $10,650,000,000. The national debt after another year of war will be about $40,000,000,000. Against this there will be recoverable assets, including claims upon allies, of something like $10,000,000,000.* The Chancellor stated that Great Britain had borrowed of the United States during the year only to the extent that it had loaned to its allies.

The new taxes proposed by the Government, like the existing levies, will fall mainly upon incomes and luxuries. The basic income tax is to be raised from 5 shillings in the pound sterling (25 per cent.) to 6 shillings (33 1-3 per cent.) and the super tax also will be raised. Tobacco, beer and spirits will pay considerably higher taxes, but the only new levies upon necessaries are increases upon sugar and matches.

It is to be remembered, of course, that these figures are for the United Kingdom alone, and do not include the budgets of the British colonies and dependencies, which are all making similar expenditures in proportion to their resources, and, also, that while proposing to spend nearly $15,000,000,000 in the coming year, the United Kingdom is about to raise the military age to 50 years. The enormous war burdens therefore are to be borne by that part of the nation remaining in industry after the able-bodied men between 18 and 51 are withdrawn from productive activity.

The proposals of the new man-power act now pending are summarized as follows:

1. Age.—The raising of the military age to 50 years.
2. Ireland.—The enactment of the principle that Irishmen are liable to compulsory military service for the defense of the Empire on the same terms as Englishmen, Scotsmen and Welshmen.
3. Exemptions.—A complete recasting of the present system of appeal and exemption by the abolition of the principle of the granting of exemption by a tribunal, and the substitution for it in cases of proved necessity of a recommendation for the postponement of calling up for a given period.
4. A "Comb-out."—An immediate withdrawal of exemption from men in Grades 1 and 2 within the present military age limits, with the exception of those engaged in vital national work such as shipbuilding, agriculture, and the manufacture of aeroplanes, guns, tanks, and other munitions of war, and of others of proved indispensability.
5. The Clergy.—The bringing o. clergymen and other ministers of religion within the orbit of the Service Acts by the offer of non-combatant work.
6. Lads of 18.—The rescission of the decision that men shall not be sent to serve abroad before they attain the age of 19 years, subject to the conditions that the military age is not brought below the present limit of 18 years, and that, if lads are sent abroad before they are 19 years old, they shall not be used for service in the front line.
7. Government Offices.—The application of the same measure to men in clerical employment under the Government as to men in civilian employment elsewhere.
8. New Test.—The application of a mixed test by physical fitness and occupation to the future grading of men of military age.
9. "Clean Cuts."—The summoning of recruits to the colours by "clean cuts" by age and grade.
10. Luxury Trades.—The abandonment of the principle by which so-called luxury trades have been allowed to keep (at a minimum) the framework of their businesses in being, and the definite assertion of the principle that the imperative needs of the State must override all private considerations.
11. No Industrial Conscription.—The renewal of the pledge that no form of industrial conscription shall be introduced, but that the new measures shall be solely directed to military objects.

The policy embodied in this measure and in the budget proposals is one of absolute devotion of the resources of the nation to the prosecution of the war. France and Italy are doing likewise. Belgium and Serbia have given everything, and we in the United States must understand what others are doing in order to appreciate our own duty.

Discount Rates.

Discount rates of each Federal Reserve Bank approved by the Federal Reserve Board up to April 29, 1918.

Federal Reserve Bank.	MATURITIES. Discounts. Within 15 days, including member banks' collateral notes.	16 to 60 days, inclusive	61 to 90 days, inclusive	Agricultural and live-stock paper over 90 days.	Secured by U. S. certificates of indebtedness or Liberty Loan bonds: Within 15 days, including member banks' collateral notes.	Secured by U. S. certificates of indebtedness or Liberty Loan bonds: 16 to 90 days, inclusive	Trade Acceptances. 1 to 60 days, inclusive	Trade Acceptances. 61 to 90 days, inclusive
Boston	4	4¼	4¼	5	4	4¼	4½	4½
New York*	4	4¼	4¼	5	4	4¼	4½	4½
Philadelphia	4	4¼	4¼	5	4	4¼	4½	4½
Cleveland	4¼	4¼	4¼	5¼	4	4¼	4½	4½
Richmond	4¼	4¼	4¼	5	4	4¼	4½	4½
Atlanta	4	4¼	4¼	5	4	4¼	4½	4½
Chicago	4	4¼	5	5½	4	4¼	4½	4½
St. Louis	4	4¼	4¾	5½	4	4¼	4½	4½
Minneapolis	4	4¼	5	5½	4	4¼	4½	4½
Kansas City	4	4¼	4¾	5	4	4¼	4½	4½
Dallas	4	4¼	5	5¼	4	4¼	4½	4½
S'nFrancisco	4	4¼	4¼	5½	4	4¼	4½	4½

*Rate of 3 to 4½ per cent for 1-day discounts in connection with the loan operations of the Government.

Note 1.—Acceptances purchased in open market, minimum rate 4 per cent.

Note 2.—Rates for commodity paper have been merged with those for commercial paper of corresponding maturities.

Note 3.—In case the 60-day trade acceptance rate is higher than the 15-day discount rate, trade acceptances maturing within 15 days will be taken at the lower rate.

Note 4.—Whenever application is made by member banks for renewal of 15-day paper, the Federal Reserve banks may charge a rate not exceeding that for 90-day paper of the same class.

* For convenience the pound sterling has been converted at $5.00 which makes all above figures slightly larger than upon precise computation.

1812

1918

Economic Conditions
Governmental Finance
United States Securities

NEW YORK, JUNE, 1918.

The War Situation.

AFTER suspending the attack for more than a month, the Germans have renewed it, and following the familiar tactics of throwing an overwhelming body of troops against a section of the line, have gained considerable ground. The attacking force has a seeming advantage over the defence in this ability to obtain superiority of numbers and get the start of its opponents, but the question as to where the advantage finally lies depends upon the losses of men and the strategic value of the ground taken. If the opposing armies are of approximately the same strength, the massing of troops by one side at a given point will expose other portions of the line to a counter attack, but the Allied commanders, for reasons that are doubtless sufficient, have so far chosen not to counter or to use their reserves freely. Presumably they prefer to give ground and save their men, in view of the fact that they will be stronger to force the fighting later, when the American army is ready to participate on a larger scale.

There is no question that from now on time will accomplish much for the Allies. It seems not too much to say that the menace of the submarine, as a decisive factor in the war, is over. Sinkings have been lighter of late, launchings have been coming faster, and in a few weeks the allied countries will be past the food crisis for this year. They will have their own crops to live on for some months to come and by next fall ships will be coming off the ways at a rate that will make the situation quite secure.

Not only is the submarine being distanced by the ship-builders, but it is being outwitted and beaten in the game at sea. The patrol of destroyers, aided by depth bombs and devices for detecting the approach of a boat at some distance, is holding it in check, and the destroyers are now going into the water in such numbers that the transport routes will soon be lined with them. The German government early in 1917 confessedly staked everything on the submarine, it has undoubtedly lost, and the defeat of its expectations cannot be much longer concealed from the German people.

The Fabricated Ship.

The fabricated American ship, by which is meant a ship built of parts which have been fabricated in numerous machine shops scattered over the country, is a demonstrated success. It reduces the amount of work to be done at the shipyard to simply setting up the ship out of assembled material, and makes the principles of mass production immediately applicable. The parts are rolling into the big Hog Island and other yards by thousands of cars and go together with the precision of good machine work. This method makes the machine shop capacity of practically the entire country available for the ship-building program.

The ship Tuckahoe, of 5,500 tons, which was launched by the New York Shipbuilding Company in 27 days, completely equipped in 37 days and sailed with her first cargo in 40 days from the laying of her keel, gives an inkling of what may be accomplished. There was no extraordinary drive in doing the work on this ship; no riveting records were broken, and the highest number of rivets driven was far below the record-breaking performances, but all the materials were ready and the work moved with system and precision. The New York Shipbuilding Company is under the same ownership as the Hog Island yard.

Splendid Crop Outlook.

The outlook for the crops in this country is surpassingly fine, weather conditions having been almost ideal to this time. Reports from the winter wheat states generally say that there is moisture enough in the ground to mature the crop. The situation as to spring wheat is equally favorable, and at this time a total wheat yield of 900,000,000 bushels is indicated. Oats are now so far along and look so well that a big crop appears to be assured. A year ago, owing to a backward spring, much of the corn acreage had

not been planted, but now the planting is completed under uniformly good conditions. The great drought in Texas seems to have been effectually broken, at least over much of the territory. The cotton outlook is favorable to one of the largest crops on record.

Not only in this country, but in Canada, Australia, India, Argentina and in France and England, all crop prospects at this time are exceptionally good.

General Business Conditions.

The general business situation calls for little comment. In ordinary times such a fine crop prospect would be very stimulating, but business in the war lines is already stimulated to the highest degree, and in other lines is under such restraint that it cannot respond to new opportunities. Certainly the farming community, with big crops and big prices, has a highly prosperous season in sight, and now that wages have been generally adjusted to the existing prices of foodstuffs the laboring population can stand them and take comfort in the promise of enough to eat and the probability that prices will not go higher, in the year ahead. This outlook gives assurance of stability in business conditions.

All of the industries have fully recovered from the adverse winter conditions. The railroads are handling traffic more expeditiously than for a long time, and the iron and steel works are making new records. At the present time Government orders are more completely dominant than heretofore in steel and textiles. General trade is all that it can be with goods in short supply. Higher prices are predicted in clothing and dress goods when the fall season opens. Building operations, except in connection with war industries and the handling of troops and supplies, is at low ebb. The call for labor is insistent from all quarters. In short, the whole situation throughout industry and trade is one of intense activity and pressure.

Third Liberty Loan.

The results of the Third Liberty Loan are very satisfactory. While the total amount subscribed was less than for the Second Loan, it was known that all subscriptions would be accepted in full, which had an influence in reducing the larger ones. Furthermore, as the income and excess profits taxes, aggregating probably over $3,000,000,000, must be paid between the first and second installments of the loan, they were influential in reducing subscriptions. The total amount to be paid into the Treasury in the next three months in taxes and subscriptions to this loan is over $7,000,000,000, a sum that would seem overwhelming if figures had not lost their significance. The effect of the tax-payments was especially notable in the New York district, which was also affected by the action of many companies whose head offices are in New York, and which have heretofore entered their subscriptions here, but this time entered them where their works are located.

The number of subscriptions was approximately 17,000,000, or about one in six of the population. The quotas and subscriptions by districts were substantially as follows:

District	Quota	Subscriptions	Percentage of Quota
Minneapolis	105,000,000	180,826,350	172%
Kansas City	130,000,000	202,301,050	156%
St. Louis	130,000,000	199,085,900	153%
Atlanta	90,000,000	136,653,350	151%
Philadelphia	250,000,000	361,963,500	144%
Dallas	80,000,000	115,395,200	144%
Chicago	425,000,000	608,878,600	143%
Richmond	130,000,000	185,966,950	143%
Boston	250,000,000	354,537,250	142%
San Francisco....	210,000,000	286,577,450	136%
Cleveland	300,000,000	404,988,200	135%
New York	900,000,000	1,114,930,700	124%
U. S. Treasury..	....	17,915,150	
TOTAL	3,000,000,000	4,170,019,650	

It is common report that in all parts of the country the quotas were raised this time more readily and easily than for either of the preceding loans. This was due in part to more effective organization, but in the larger view it was due to an awakening of the people to the emergency, and the development of patriotic feeling. The country is in its war stride, and ready to back up the Government at Washington with all the money and men required.

The total holdings of Government bonds, other than those deposited by national banks to secure circulation, by the member banks of the Federal Reserve System, were $343,350,000 on April 5th, which was before the Third Loan Campaign began, and on May 10th, after the close of the Campaign, these holdings aggregated $677,090,000. This indicates purchases by all of the national banks and the leading state banks and trust companies, on their own account, of only $334,000,000, a very satisfactory showing.

The Money Market.

The Third Liberty loan and the payments upon it which now aggregate probably 65 per cent of the subscriptions, has scarcely ruffled the money market. There has been no unusual demand for bank accommodations, as compared with conditions in recent months. Time money remains on a six per cent basis, with the current business requirements fully cared for.

The $100,000,000 pledged at the instance of the Food Administration to finance the movement of the Cuban sugar crop, it now appears will not be used. About $14,000,000 has been taken and it looks as though this might be all the help Cuba would need from here. The Queen of the Antilles has been accumulating capital of her own at a rapid rate since the price of sugar went up.

The loans of the Clearing House banks of New York City are just about the same as at the completion of the Second Liberty Loan, but the loans of the Federal Reserve Bank of New York are about $200,000,000 greater than then. Reserves, however, are down from $563,567,000 on November 3 to $518,229,000 on May 25, with demand deposits $3,627,356,000 on the former date and $3,708,439,000, on the latter. These figures do not include Government deposits, which were $592,784,000 on November 3 and $364,015,000 on May 25.

Bankers who have been looking forward with some concern to the tax-payments in June are feeling better about them. The large payments have been generally provided for by the purchase of treasury certificates, and while the payments about the 15th will aggregate an important amount they will be handled without difficulty. The Treasury will take a book transfer of the funds and will not draw on them immediately.

The Government Railway Administration has authorized capital expenditures by the companies aggregating $938,000,000, to be financed so far as practicable by the individual companies but with the help of the Government where necessary. Of these outlays only $18,000,000 are for extensions, the main object being to increase the working capacity of the lines.

The National Budget.

The outgivings of official estimates at Washington indicate that appropriations for the coming fiscal year, including loans to allies, will approximate $30,000,000,000. The experience of the last year, however, has shown the difference between making an appropriation and actually spending the money. The appropriations for the current year were $19,000,000,000, and up to a few months ago the business community was oppressed with the prospect that this sum would have to be raised for the treasury before June 30. It turned out, however, that more had been planned than could be executed; the money could not be spent because the work could not be done. Up to May 25 disbursements aggregated $10,969,382,724, and for the full year they probably will be a little above $12,000,000,000.

And so the estimates for the coming year will represent the plans which the various departments of the Government desire to carry out, but whether they can be realized or not depends upon the capacity of the industries and the extent to which they are concentrated on war work. The productive capacity of the country is probably greater than it was last year, as a good deal of new equipment has been installed, but it is limited by the labor supply, which, in view of the draft calls, cannot be greater than a year ago, except as women have entered the industries. Of course, prices and wages are an important factor in expenditures; both are higher than last year, and to this extent the same amount of work will require larger appropriations.

It is important to understand that the industrial task comes before the financial task. The work must be done or the money does not need to be raised, and if the work is done there can be no doubt about the ability of the country to settle with itself. If $20,000,000,000 or $30,000,000,000 of work is done for the Government it is certain that work on private account will be largely curtailed, and this will mean that private incomes will be more largely at the disposal of the Government, through taxation and loans.

A New Revenue Bill.

As expenditures unquestionably will be larger next year than this, a new revenue bill was to be expected, and time has shown that the existing law is faulty in many respects. It is certain that more revenue might be produced by methods more generally acceptable.

The Secretary of the Treasury and the President have taken the position that the new law should be enacted before the present session of Congress adjourns, and Congress has accepted this program. As it was agreed that the law, whenever enacted, should cover earnings and incomes for the full year 1918, there is much to be said in favor of having the terms known as early as possible, in order that taxpayers may make their plans to suit. On the other hand, the policy of providing by taxation for a given percentage of the expenditures is not easily carried out when there is so much uncertainty as to what the expenditures will be. It is said that the plan will be to raise 40 per cent. of the required income by taxation, and this is surely enough, but if expenditures should turn out to be less than estimated the percentage of revenue raised by taxation may be higher than that.

There is a question also as to what expenditures shall be included in calculating the 40 per cent. No good reason can be offered for covering the loans to allies by taxation, at least at this time, or the great expenditures upon freight ships, or the $200,000,000 which the Secretary of the Treasury has been authorized to expend upon the purchase of Farm Loan Bonds, or numerous other outlays which will produce permanent assets, and if these are excluded more than 50 per cent. of the remaining expenditures this year are being met by taxation. Nothing like this record was ever made before.

A Question of Expediency.

It is misleading in a degree to speak of meeting only a portion of the expenditures by taxation, for in the long run all expenditures, save such as produce income, must be met in that way. The debt which is not represented

by productive or convertible assets must be carried and eventually discharged by taxation. The question of how much shall be temporarily taken care of by loans is a question of expediency, having regard to the effects of the two methods of raising funds upon the business activities of the community. The war is to be won by stimulating the energies of the people, and it is wise statesmanship to know how to do this. The psychological factor is one of importance. If it is characteristic of human nature to work with greater energy and efficiency when there is a chance for personal gain than for the sole purpose of paying taxes that fact is worthy of the legislator's attention. At a time when it is desirable to stimulate everybody to the greatest efforts, it doesn't pay to neglect the personal inducements and rewards to which the average man naturally responds.

The Treasury is said to have decided that winnings at poker are subject to taxation. Now poker, however popular in some circles, is not a pastime which excites national solicitude, but it may serve to illustrate the point. If the poker-player must stand his losses alone and turn over most of his winnings to the Treasury, there must be a point as taxes advance where he can no longer afford to play the game, at any rate if he is playing for gain. More or less risk attaches to all business, and this is particularly true of business now, with all the uncertainties which surround it and lurk in the future. Profits are largely on paper, unrealizable, and when men find it necessary to borrow money to pay taxes upon profits which they cannot withdraw from their business they may naturally and perhaps necessarily conclude that it is the part of prudence to reduce their operations.

The taxation of profits applies rigidly and uniformly to every business, but all are not affected alike by the enforced withdrawal of funds, and as taxes are increased in unusual degree there is increasing danger that they may interfere with industries which need support and development at this time. Loans are a more flexible means of raising money, and if they enable the business community to adjust the burden so as to carry it more easily the interest charge is a minor consideration. The essential thing is that the energies and capacities of the people shall be completely enlisted in the work upon which they are engaged, and that the result of their labors, in the fullest possible degree, shall be placed one way or another at the disposal of the Government.

The proposal to lay more taxes upon luxurious spending will excite no controversy. It is very desirable to recognize the fundamental difference between the withdrawal of profits for unnecessary expenditures which require the employment of labor and consumption of goods, and the retention of profits for the expansion of a business which is rendering vital public services.

Guaranty of Deposits.

The New York Clearing House Association has passed resolutions condemning the measure pending before Congress to establish a guaranty fund for all deposits of less than $5,000 in national banks. An overwhelming majority of bankers are opposed to the guaranty of deposits, and the agitation for it is almost wholly from people whose knowledge of the banking business is from the outside. It is a theoretical proposal and the theory of it is unsound.

The argument is from the insurance principle, but there is a vital difference between the guaranty of deposits and either life or fire insurance. The average man will take the same precautions to preserve his life, whether it is insured or not, and the fire insurance business would certainly be on an unsafe basis if it did not insist, as a fundamental condition, that the insured shall always have an uncovered equity sufficient to make him concerned in behalf of the usual precautions against fire. The guaranty of deposits is designed to relieve the depositor of all responsibility and any possible loss in selecting a banker. It recognizes no such thing as contributory negligence on his part. If he should happen to know that the banker who was offering the greatest inducements to depositors was betting the deposits on horse races, it would be all the same to him, so long as there were bankers who did not bet on horse races to pay the bill. The guaranty of deposits eliminates the value of character in the banking business, and takes away the legitimate reward of safe and conservative banking policies. It strengthens the competition of the banker who resorts to doubtful expedients to attract business; in fact, it gives the advantage to boldness in attracting business instead of to care in safeguarding it. All of this is opposed to the real interest of depositors as a class and of the public generally, for it encourages wasteful and unsound practices and tends to develop banking in the wrong direction.

The hoary old fiction about vast sums of money in hiding which will be brought into use by making all banks equally sound in the estimation of the public, whether they are or not, is trotted out again. These sums are wholly suppositions. Various expedients for recovering them are adopted from time to time, but they never materialize. When the postal savings system was pending its friends represented that hundreds of millions would be brought forth from under carpets and out of old stockings and tin cans, but those promises were not realized. A few such deposits were received, and are received from time to time by other banks, but whatever may be said for the postal savings banks as a public utility there is no evidence that they

have brought any considerable amount of money out of hiding. Their deposits have increased gradually and regularly, although not so fast as deposits in other banks.

It is very desirable that public supervision over banks shall be made constantly more effective to the end that unsafe and dishonest practices shall be exposed, condemned and rooted out. That is real reform, but it is a step in the wrong direction to relieve the public of all obligation or occasion to discriminate in the selection of a banker.

The Bond Market.

The month of May has been an erratic one in the stock market but bonds have shown a firm tendency with advancing prices. The first week of the month was somewhat contracted, with a broadening market during the second week, while the third week witnessed greater activity in railroad and industrial bonds with considerably higher prices. The closing week exhibited less activity with slight declines.

During the month Anglo-French 5s touched their high price of the year, 91¾, and following President Wilson's speech recommending increased taxes Liberty Loan 3½s advanced to within a slight fraction of par.

There have been very few general issues offered during the month, the most important being:

$2,000,000 Milwaukee Electric Railway & Light 7% Notes, due May 1, 1920, at 98½ and interest, to yield over 7.88%.
$5,000,000 Sutter Basin Co. First Mortgage 7% Bonds, due May 1, 1924-28, at prices to yield about 7½%,
$2,000,000 Timken-Detroit Axle Co. 7% Notes, due June 1, 1919-21, at prices to yield 7% to 7⅜%.

The municipal market has improved, each week showing increasing activity and firmer prices. The principal offerings were as follows:

$2,000,000 Boston, Mass., 5% Notes, due Nov. 1, 1918, on a 4.70% basis.
$3,000,000 Mississippi, State of, 4¾% Bonds, due Apr. 1, 1920-34, on a 4.85% basis.
$1,682,500 Mississippi County, Ark., Drainage 5% Bonds, due Aug. 1, 1923-42, on a 6% basis.
$3,000,000 Newark, N. J., 5% Bonds, due Dec. 1, 1918, on a 4.80% basis.
$3,000,000 Ontario, Canada, 6% Bonds, due May 15, 1928, on a 6% basis.
$1,000,000 Essex County, N. J., Notes, due Dec. 28, 1918, on a 4.90% basis.

The average price of 40 standard issues, as reported by the *Wall Street Journal* on May 29, was 84.46, an advance of .85, compared with the price on April 29 of 83.61, and a decline of 6.06, compared with the price of 90.52 on May 29, 1917.

Farm Loan Bonds.

About the middle of the month a syndicate consisting of Alexander Brown & Sons, Harris Forbes & Company, Brown Bros. & Co., Lee Higginson & Company and The National City Company made a public offering of Federal Land Bank Bonds. These bonds bear interest at the rate of five per cent. per annum and are issued under the direction and control of the Federal Farm Loan Board at Washington, D. C., in accordance with the provisions of the Federal Farm Loan Act approved July 17, 1916. They are dated May 1, 1918, being redeemable at par and interest on any interest date after five years from date of issue and due May 1, 1938. The offering price was 101 and interest, at which price the yield is 4.75 per cent. per annum, figuring the optional date and five per cent. for every year thereafter up to the redeemable date. They are exempt from federal, state, municipal and local taxation, in other words, they are the only bonds which have been issued since the beginning of the war that carry the same tax exemption features as United States Liberty 3½'s. For this reason and as first class municipal bonds are selling at the present time at prices to yield only 4.60 to 4.65 per cent. per annum, there was an immediate response to the offering of the Farm Land Bank 5's and practically the entire issue was sold within one week. About $45,000,000 of these bonds have been sold by the syndicate.

United States Bonds.

The demand for United States Bonds available to secure national bank note circulation has increased considerably during the last month. As a result of these purchases U. S. Registered 2's of 1930 and U. S. Registered 4's of 1925 have advanced about ¾ of a point, selling now at 98 and interest and 106 and interest respectively, as against 97¼ and interest and 105¼ and interest during the early part of the month. The buying of the bonds has come from national banks who are using them as a basis for additional circulation, as well as with the idea of substituting them for U. S. Registered 3's of 1918. At the present time there are approximately $18,000,000 of the 3's under circulation account. The United States Treasury Department has announced that it will actually pay these bonds in cash at their maturity, namely August 1st of this year. Accordingly the currency against the 3's will either have to be retired between now and August 1st, or the bonds replaced with other U. S. obligations carrying with them the circulation privilege, i. e. the 4's of 1925, and the 2's of 1930, or the Panama 2's of 1936 and 1938. Country banks as a rule like to show the maximum amount of circulation issued to them, due to the handsome profits to be thus derived and the advertisement to be secured by having the bank notes distributed in their sections. The profits on every $100,000 of the circulation secured by 4's purchased at 106 are approximately $1,650 per annum and on the 2's about $1,250 per annum, overloaning the cost of the securities direct to the open market money being figured as worth 5 per cent. In the case of the 2's, banks do not feel that they are taking any real market risks, basing this opinion upon the possibility of the Federal Reserve Banks again purchasing 2's from member or national banks at par, when conditions become normal again, in accordance

with the provisions of the Federal Reserve Act. It will be recalled that approximately $41,000,000 of the 2's were thus purchased by the Reserve Banks, before our entrance into the European conflict.

Conscription of Wealth.

This is a term of vague import which has rather free currency because it suggests a treatment of capital similar to that resorted to for filling the armies, although a careful analysis will show that the cases are not at all alike, and cannot be fairly compared in any other sense than that the nation in time of supreme peril has a right to lay its hands upon either persons or property for purposes of the common defence. That right is not disputed, but after it is granted the practical question of advantageously utilizing or converting the multitudinous forms of existing wealth for war purposes remains just where it was before. Where the Government wants a man for the army there is plainly nothing to do but take him. There is no possible substitute, unless it may be another man, and that kind of substitution, which was allowed during our Civil War, is no longer permitted. But when the Government wants farm products, as it does on a great scale for its armies, the case is not settled by affirming its right to conscript farms or seize crops, for while this might be done common sense teaches that it would not be the best way to accomplish the desired end. The Government doesn't want farms and could not handle them advantageously if it took them; it wants the produce of farms and the most effective way to get that produce in ample supply is to leave the farms in the hands of their present owners and offer the incentives to individual effort which are necessary to obtain increased production.

This idea of the conscription of wealth is current in other countries as well as here, for the same reason, because it sounds plausible to a great many people who do not have very accurate ideas upon the subject of national wealth. The matter has been given especial interest in England in recent months by remarks made by the Chancellor of the Exchequer, Mr. Bonar Law, in response to an address by the Parliamentary Committee of the Trades Union Congress, which called upon him to urge that the Government proceed to a conscription of wealth.

Mr. Law's reply was notable because it raised the question whether it would not be better for all interests to have a considerable capital levy made at the end of the war.

Mr. Law said that the Government had already acted on the principle that when money was needed the Government had to go where they could get it. On the whole he thought that the classes who had money had shown less reluctance to part with it than he had ever known before in that country, and there was reason to be proud of them as well as of other sections of the community.

Until now he had never seen any proposal which seemed to him to be practicable for getting money during the war by conscripting wealth, and personally, up to that moment, he did not believe it possible. In the year before the war, the total amount collected in indirect taxation—to which all classes were liable—was $345,000,000, and that form of taxation had now risen to $510,000,000. The amount of direct taxation in 1913-14 was $465,000,000, and it had risen in last year's budget to $2,330,000,000. In other words, the indirect taxation in 1913-14 represented 42 per cent., and the direct taxation 58 per cent. In 1917-18 the indirect taxation was 18 per cent., and the direct taxation 82 per cent. The great cost of the war had been paid by those who had wealth.

A Capital Levy.

Mr. Law then went on to speculate upon the feasibility of a considerable capital levy, after the war is over, for the purpose of making a large reduction of the debt at one stroke, raising the question whether it would not be advantageous to industry and therefore to all classes. Referring to these remarks afterward in the House of Commons he said that they were impromptu, not intended for publication, that he regretted their publication, and that they had been intended only to indicate that he had an open mind as to any proposals upon the subject of taxation after the war. The statement which occasioned comment was as follows:

> But you are, of course, thinking of what the effect will be after the war. What sort of parties we are going to have I do not know; but as a matter of prophecy I would venture to say this: that the political conditions which prevail in this country will be of such a nature that the burden of this taxation is not likely to fall upon the wage-earners so long as there is wealth which can be made to pay it. That is my own view. I think there is very little danger, from your own point of view, of the great bulk of it not continuing to be paid in the same way as the war itself is being paid for. But I feel that the total burden of taxation represented by the National Debt, however you adjust it, will mean a burden upon industry. Everything comes down to that in the long run where there is taxation. That burden is, to a certain extent, one of the inevitable consequences of the war; and all we can do is to try to make it tell as little as possible on the life of the country.
>
> Suppose you take this view—and I am inclined to take it myself—that we ought to aim at making this burden one which will rest practically on the wealth that has been created and is in existence at the time the war comes to an end, not merely that it should not fall on the wage-earning classes or on the people with small means with which to meet it, but that it should, as far as possible, be borne by the wealth that exists at the time, so that it would not be there as a handicap on the creation of the new wealth after the war. I think that is what we have to aim at. How is that to be done? The question of whether or not there should be conscription of wealth, then,

is entirely a matter of expediency, and I think it is a matter which concerns, mainly, not the working classes, but the people who have money. In my opinion, it is simply a question of whether it will pay them best, and pay the country best, to have a general capital levy, and reduce the National Debt as far as you can, or have it continued for 50 years as a constant burden of taxation.

Perhaps I have not thought enough about this to justify me in saying it; but my own feeling is that it would be better both for the wealthy classes and the country, to have this levy of capital, and reduce the burden of the National Debt. That is my own feeling. But I am convinced of this—and this is the only point on which I am absolutely in disagreement with Mr. Webb—that you cannot do that while the war is going on, and that you will not get the money if you try to do it, but that you will run the risk of falling short of money.

Incidence of Taxation.

The incidence of taxation, or, in other words, the place where it falls, usually depends more upon the natural laws of the business world than upon the terms of legislation. The law may say that certain classes of property or products, or people in certain occupations, shall pay taxes as specified, but it is a very superficial judgment which assumes that no other property, products or occupations will be affected by the taxes. The modern community is too closely related for that. The influence of taxation in England will not even be confined to the people who live in England, but extend to all the people with whom England has relations, so responsive to new conditions and so liquid are the currents of trade.

It is doubtless true that the taxation occasioned by the debt will fall mainly upon wealth. Much even of that which might be originally placed elsewhere would have its final effect in retarding the increase of wealth. England came long ago to the conclusion that it was not in the interest of her industries or of her career as a great trading and manufacturing country, to tax the articles of common consumption. The great employing interests of England have generally believed this, and the policy has rested therefore upon the safest possible basis, the recognized interests of all classes.

Unity of Interests.

Just how British industry will be affected by the war and the debt nobody positively knows, but if it should be unfavorably, and England should be a poorer location hereafter for the headquarters of world trade and world-wide financial operations, all classes there will suffer together, as Mr. Law has indicated. In that event, business will fall off, earnings will diminish, wealth will accumulate more slowly, the demand for labor will be less and improvements in industry and all progress will be slower. Whether this will occur or not will depend chiefly upon the efficiency of British industry, and that will depend in part upon the workers and in part upon the intelligence of the organization and management and the amount of capital available for providing the workmen with the best of equipment and for financing British foreign trade as in the past.

The first symptoms of decline in the fortunes of an individual house are seen in diminishing profits, failure to keep the pace with rivals in enterprise and facilities, and, if this goes on, retrenchment takes place, with a reduction of force and possibly of pay, and when failure comes all who are dependent must suffer. A condition which bears heavily upon national prosperity will develop in like manner. We are not predicting anything of this kind for England, but only indicating how the fortunes of all classes are inextricably merged together. There is a natural relationship and proportion between the amount of capital available for the operation of a country's industries and the effective demand for labor and the amount of wealth distributed in wages, and they all increase or decline together.

Existing and Future Wealth.

Mr. Law seemed to have in mind that if the burden of the debt was wholly assumed by the wealth in existence at the close of the war it would cease to be a deterrent or obstacle to future accumulations. Moreover, since the debt would have to be paid by wealth anyway the wealthy might as well make up their minds to wipe out a large part of the principal at once and be done with it.

In regard to the first consideration we venture the opinion that the distinction between existing wealth and future wealth is an impracticable one. The two are too closely related to be separated for treatment. The ability of the next generation to produce wealth will depend very largely upon the means of production inherited from this generation; succeeding generations do not begin with bare hands, and would find it slow work if they did. On the other hand, existing wealth owes its present value mainly to the prospect that it will produce wealth in the future; there would be a rapid depreciation of capital values in any country if it should appear that its industrial position after the war would be less favorable than in the past.

The most important truth for consideration in this connection is the fact that in the nature of things the national debts must be paid out of new and liquid wealth, as it is produced, rather than by the conversion of past accumulations which exist in the form of fixed wealth. The debt of Great Britain now amounts to one-third of the estimated wealth of that country before the war. How would a Chancellor of the Exchequer go about collecting taxes in excess of the incomes of the tax-payers, and what would be happening to business, enterprise, employment and the general welfare while he was about it?

Conscription and Taxation.

The word "conscription" suggests that the Government would lay its hand on private wealth and take it, in whatever form it exists, as it takes each particular man it wants for the army. If "conscription" does not mean this, why substitute the word for taxation, which means something else? Taxation, although based upon the capital value of property, is not a seizure of property, and is usually moderate enough to be met out of income, without compelling the owner to sell or pledge the principal, which may be ruinous. It is in the public interest that owners shall keep their property and have some incentive to conserve it, develop it and make it more productive and valuable. By this means the community advances. It is an accepted principle of public economy that the more property owners there can be the better, and it is regarded as an enlightened and progressive policy for the head of a great industry to seek to interest his aids and employes in the business, either as stockholders or by some profit-sharing arrangement. The essence of the policy is that everybody works more zealously and effectively under conditions that afford a direct personal stimulus; hence thrift, enterprise, the national wealth and the general welfare are promoted by conducting public affairs upon that principle.

For each person to pay his share of the public debt out of income means that he can go on with the business in which he is established, giving up a share of the proceeds from year to year, but retaining the means of production and livelihood in his hands; on the other hand, to be called upon to pay a sum which entrenches upon capital means that his business must be interrupted or curtailed, that the implements of production may have to change hands, the Government either taking them over or forcing their sale. The situation needs only to be stated to expose the impracticability of any such general policy.

The idea back of "conscription" seems to be that all of the wealth of the country is as liquid as money in hand, and that it would be a simple matter for the Government to reach out and take any part of it.

Debt-Holders and Tax-Payers.

It is true and a factor of great importance in every discussion of national debts that whatever payments are made upon these debts will go for the most part to people who are residents and tax-payers of the same country. There is no extinguishment of capital, and the payments are not comparable in effect to losses by fire or storm, or to the destruction and waste which occurs during the war. The real economic losses represented by the debts are taking place during the war, but when the war is over this class of losses will be at an end. All of these countries will begin to grow richer from the day the armies are redistributed into industry. The newly created wealth gathered into the national treasuries by taxation will be paid to the holders of the national obligations, and be as much a part of the national wealth in their hands,—as available for expenditure and investment—as in the hands of the original holders.

A public debt presents a fiscal problem rather than an industrial one. The task is that of providing the Treasury with an income from the people large enough to offset its outgo to the people, and although evidently there are complications and difficulties to be overcome they are of small importance compared with an actual loss of the capital involved.

It is said in behalf of the proposition for a capital levy that the payments would go back largely to the people subject to the levy. No doubt this is true, for presumably the debt is largely in the hands of the tax-paying class. But it is important to do justice between individuals, and income and the ability to pay large sums promptly out of hand do not always correspond to property holdings. A levy upon capital, based upon property values would not fall upon all alike; in the very nature of property, varied in kind as it is, and in view of the widely different circumstances of property-owners, a heavy though uniform levy upon all would fall with very different weight upon people of the same nominal wealth, but whose investments were of different classes. It would even be very different to the same individual at different times. Persons who in their zeal to support the Government had borrowed for the purpose of lending to it would have their holdings of Government obligations practically cancelled while their debts remained for them to pay.

Avoid Disturbance to Production.

The best way to deal with the debt is in the manner which will cause the least disturbance to the community organization, and particularly to the great processes of industry by which new wealth is being daily created and distributed. Whatever disorganizes and interrupts these productive processes may quickly cost more to any class than the possible savings of that class. It is a fundamental principle that whatever reforms are desired, whatever alterations are wanted in the existing social organization, should be accomplished by methods which do not stop the machinery upon which community life depends. Society is a going concern, it must earn its bread daily, and the organization must be repaired or improved while in motion.

The argument for dealing with the debt in the manner which will cause the least disturbance to existing conditions supports the claim that the charges should fall mainly upon the property-owning classes, as the debt is probably for the most part in their hands, but there

is another consideration. It is not right or in the public interest that the financial burdens of the war should be thrown upon the thrifty, saving class to the practical exemption of a class numerically larger, composed of people who spend as they go. This would be having the State penalize and discourage the virtue which is at the very basis of social progress. Instead of doing this it would be better to reverse the policy and meet the debt charges in part at least by taxes directed at unnecessary expenditures, which cause wasteful diversion of labor from productive employments. There is a large field in which such taxation could operate, and the effect would be to save some portion of the capital thus dissipated, while the reimbursement of the people who had accumulated and loaned capital to the state would be a replenishment of the capital fund of the nation.

The National Obligation to Those Who Save.

The suggestion of capital conscription seems to have been particularly inopportune at a time when the nations are appealing to all the people to deny themselves, save and lend capital to the Government. Mr. Asquith, the former Liberal Premier, has taken occasion to express himself upon this point vigorously. He said:

> "I think it ought to be made clear—it ought not to be necessary to be made clear—but so far as I can wish to make it clear—speaking on behalf of those whom I represent—that we regard the obligation the State has undertaken in this matter as a sacred obligation. It is not capable of any kind of qualification, diminution, or withdrawal. In the appeals that are now being made, and very properly made, by the War Savings Committee and by other bodies to the men and women of the country to advance their money to the State, those who respond to those appeals may be perfectly sure that they have behind them the public credit, safeguarded and warranted by every possible sanction that any responsible politician in this country can give."

Remedy in Enlarged Production.

The problem of dealing with the public debt after the war will be simplified by all the improvements that may be effected in the methods of production. This is the easiest and most effective way of dealing with the debt. In forecasting the burdens of the future, people very naturally measure them against their ability to carry burdens in the past, but happily their abilities are always developing and never more rapidly than now. If we can conceive that owing to improvements in machinery, gains in scientific knowledge, greater individual skill and better relations between employers and wage-earners, the average efficiency of every worker might be quickly doubled, it is easy to see that the indebtedness over which there is so much concern would be of very small importance. There would be so much business, everybody would have so much to do, and would be so much more prosperous than ever before, that no attention would be paid to the increased taxation. To suggest doubling the industrial output may sound extravagant, but even in the past the tonnage of the railways of the United States have been doubling in a little more than ten years. We have just begun to appreciate the possibilities of social progress that lie in highly organized, genuinely cooperative, industry, and what is now called quantity production. The essential thing is to get everybody interested in the possibilities of increased production instead of in the paralyzing agitation which lays all emphasis upon the division of the product. If the commodities of trade which minister to the comfort and welfare of the people are produced in greater quantities and more economically than ever before, there is not the slightest doubt that there will be a broad distribution of them. Everybody who produces them will be striving to distribute them, and if the increase is in all kinds of products everybody will have something to give in exchange for the property or services of others; there will be more of everything for everybody, and taxation will be the least of anybody's worries.

Industrial Organization.

In this country we were on the threshold of great developments in industry before the war, but were not quite clear that we wanted them. We had gone far enough to know that important economies could be accomplished by organizing industries on a large scale, bringing all stages of production under one management, sub-dividing the processes, developing special machinery and training labor to specialize in the processes. There are economies in consolidating competitive concerns, reducing overhead charges, increasing the ability to do research work, eliminating transportation charges, making it possible to place both production and distribution to greater advantage and improve service in many ways.

But the reorganization which this involved disturbed many people and excited antagonism. There were instances of hardship, and of arbitrary and unfair use of power. Popular opinion was against the consolidations. Sympathy was with the small operator, even though his methods were uneconomical; it was thought to be more democratic to have a greater number of proprietors. Moreover, it was said that however great might be the economies achieved by the trusts, they were not passed on to the public—a statement essentially superficial, because all real savings which become capital are sure to yield benefits to the public. Capital cannot be used without giving benefits to the public.

The effect of this popular opposition to big business has been seen in the anti-trust laws, which, however, have been only partially successful in stopping the movement at which they were aimed, because when brought face to face with highly developed organizations evidently realiz-

ing important economies and rendering valuable public services, the courts have sought to find an interpretation which would allow them to live, while establishing restraints against the abuse of power.

Shoe Machinery Case.

The United States Machinery Company, which has been under fire for years, has finally emerged from litigation with a decision in its favor from the Supreme Court. This company has gathered together numerous patents covering machines used in the various processes of shoe-making, the avowed purpose being to provide a complete outfit of machinery for a shoe factory. It employs a large force of skilled mechanics and inventors who are constantly at work upon the improvement of mechanical methods in shoe-making. It does not sell the machines, but leases them upon a system of royalties. Its service is original and unusual, and it was charged with being a monopoly.

The decision of the Supreme Court is reported as a sweeping victory for the Company. The full text is not available, but excerpts indicate that the Court was impressed with the economic value of the organization. "The idea is repellant," says the opinion, "that so complete an instrumentality shall be dismantled and its concentration and efficiency lost. The company indeed has magnitude, but it is at once the result and cause of efficiency, and the charge that it has been oppressively used is not sustained."

This is in contrast with the view that mere size and pre-eminence in a field constitutes a violation of the law because it includes the power to oppress the public. In the case of the International Harvester Company, the Circuit Court found that there was no ground for complaint of its treatment of the public, but that it was organized in violation of the law and must be dissolved. This case is now pending in the Supreme Court along with the case against the United States Steel Corporation. Both of these cor-

STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS MAY 24, 1918.

(In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco	Total
Gold coin and certificates in vault	2,879	351,319	9,167	25,633	[illegible]	6,633	28,276	1,906	8,371	360	5,405	32,142	[illegible]
Gold Settlement Fund	60,927	39,583	40,537	54,544	23,224	15,224	81,869	23,784	18,520	23,344	8,438	17,773	[illegible]
Gold with foreign agencies	3,675	18,112	3,675	4,725	1,637	1,575	[illegible]	2,100	2,100	2,625	1,838	[illegible]	52,500
Total gold held by banks	67,481	409,014	53,379	84,902	31,430	23,432	117,495	27,790	28,991	26,329	15,681	52,803	938,727
Gold with Federal Reserve Agents	63,163	247,562	83,661	107,630	32,957	37,838	152,251	41,131	34,672	36,936	19,163	73,277	930,181
Gold Redemption Fund	2,000	12,500	3,000	1,177	[illegible]	1,799	2,090	1,715	1,984	[illegible]	1,259	78	29,115
Total gold reserves	132,644	669,016	140,040	193,709	65,142	[illegible]	271,836	70,636	65,647	64,023	36,103	126,158	1,898,023
Legal tender notes, Silver, etc.	2,709	41,658	1,291	482	441	942	4,980	1,771	133	415	2,909	302	58,033
Total Reserves	135,353	710,674	141,331	194,191	65,583	64,011	276,816	72,407	[illegible]	[illegible]	39,012	[illegible]	1,956,056
Bills discounted, Members	41,277	442,175	40,690	54,018	46,058	23,814	80,771	30,814	24,051	71,577	28,160	39,894	923,299
Bills bought in open mark't	22,314	138,983	[illegible]	10,827	[illegible]	4,569	41,011	6,955	4,745	1,446	770	20,669	278,221
Total bills on hand	63,591	581,158	64,128	64,845	48,552	28,383	121,782	37,769	[illegible]	73,023	28,930	60,563	c 1,201,520
U. S. Governm't long-term securities	616	2,756	1,347	7,800	1,234	730	7,200	2,233	1,845	8,864	3,981	3,461	42,067
U.S. Governm't short-term securities	1,421	3,475	2,321	9,822	1,523	1,205	3,189	511	1,314	4,398	1,750	1,547	32,476
All other earning assets						53	90	58	84	23	823	20	1,151
Total Earning Assets	65,628	587,389	67,796	82,467	51,309	30,371	132,261	40,571	32,039	86,308	35,484	65,591	1,277,214
Due fr. other F. R. Bks. net	3,746		10,484				12,897	5,959	[illegible]	1,570			b 14,033
Uncollected Items	22,506	69,355	42,869	42,338	26,186	23,558	41,269	30,190	9,599	22,218	17,864	17,488	365,440
Total deduction from gross deposits	26,252	[illegible]	53,353	42,338	26,186	23,558	54,166	36,149	11,862	23,788	17,864	17,488	351,407
5% redemption fund against F. R. Bank notes										400	137		537
All other resources			[illegible]										89
TOTAL RESOURCES	227,233	1,367,418	262,569	318,996	143,078	117,940	463,243	149,127	109,681	174,934	92,497	209,539	3,585,303
LIABILITIES													
Capital Paid in	[illegible]	19,754	6,938	8,536	3,811	3,019	9,737	3,623	2,782	3,500	2,967	4,332	75,465
Surplus	75	649			116	40	216		38				1,134
Government Deposits	11,728	12,142	10,696	19,194	4,247	4,892	9,498	12,615	9,879	9,818	7,717	9,924	122,350
Due to members—reserve account	87,830	628,517	88,711	108,184	42,248	37,398	185,287	47,684	38,614	66,701	36,876	68,234	1,436,284
Collection Items	17,734	[illegible]	27,810	28,728	17,362	14,377	22,563	21,374	4,094	[illegible]	[illegible]	13,263	242,468
Due to other F. R. Bk's net		37,552		2,349	6,892	412					[illegible]	68	
Other deposits incld'g For. Government credits		100,312		174		17	3,154	35	19			4,192	107,903
Total Gross Deposits	117,292	[illegible]	127,217	158,629	70,749	57,096	220,502	81,708	52,606	90,163	55,666	95,681	[illegible]
F. R. Notes in actual circulation	[illegible]	506,342	128,414	150,987	68,281	57,780	231,690	63,276	53,887	72,299	33,557	109,210	a 1,578,621
F. R. Bank Notes in circulation, net liability										7,764			7,764
All other Liabilities	502	[illegible]		844	121	5	1,098	520	368	1,208	307	316	13,294
TOTAL LIABILITIES	227,233	1,367,418	262,569	318,996	143,078	117,940	463,243	149,127	109,681	174,934	92,497	209,539	3,585,303

(a) Total Reserve notes in circulation, 1,578,621.

(b) Difference between net amounts due from and net amounts due to other Federal Reserve Banks, 14,033: Ratio of gold reserves to net deposit and Federal Reserve note liabilities combined [illegible]. Ratio of total reserves to net deposit and Federal Reserve note liabilities combined [illegible].

(c) Bills discounted and bought; U. S. Government short term securities; municipal warrants, etc.: 1—15 days 715,367; 16—30 days 118,777; 31—60 days 207,070; 61—90 days 151,451; over 90 days 41,862. Total 1,234,527.

porations have rendered large services to the public and are doing so now. They have supplied a leadership in industry, and in world-wide distribution of American manufactures, and set up new standards of corporation management and of industrial efficiency. It is by just such methods as they and the Shoe Machinery Company have initiated that we may hope to accomplish something like an industrial revolution, rendering it possible to raise the level of pay and of living conditions for the workers.

The Supreme Court seems to have been influenced by this consideration, but it is noteworthy that the decision was rendered by a vote of 4 to 3; and that two justices did not participate, having been connected with the prosecution of the case before becoming members of the Court.

The Only Way Forward.

The air is full of talk to the effect that industrial conditions are to be different after the war, with the implication that capital will receive less and labor a larger share of the fruits of industry. Much of the talk is misleading, for it presumes a conflict of interests which does not exist. In the first place capital itself withdraws nothing from industry; it consumes nothing. Capital is not a living thing; it is not a competitor of labor. It is an aid to labor in production; it helps multiply the quantity of all the things which the millions of men and women who make up the ranks of labor consume. For example the thousands of farm tractors which are now going into use, each representing an investment of $1,000 or more, are a form of capital. Back of them is an investment of millions of dollars, expended in the development of the machine and in use in the plants and working capital of companies now manufacturing them. The effect is to increase the amount of land which one farmer can cultivate, and cheapen the production of food. In the same manner automatic spinning and weaving machinery increases the productiveness of labor in the textile mills, and capital investments in all lines of industry serve to increase production. Since the laboring class are the great consumers of products it is evident that this class is the greatest beneficiary of capital investments.

The idea that labor will be able to suddenly and largely increase the compensation which it receives is evidently fallacious so far as small proprietors and comparatively undeveloped industries are concerned. Many of them can barely exist under present conditions. The uneconomical producer must give way to make possible any general advance in wages. He cannot pay more, and so long as he remains a factor in the supply, protected by law and public favor, the more efficient producer will be hindered from extending his operations, and at the same time protected in large profits. The latter cannot be required to sell his product below the prices of his uneconomical competitor or to pay higher wages than that competitor. It is an axiom that the market price for any commodity is fixed by that portion of the necessary supply which is produced at the highest cost. Therefore there can be no rapid change in industrial conditions except by eliminating that large body of producers in every line who have been doing business at, or only slightly above, cost. Is the public thinking of this class of producers as it talks of industrial revolution? Has it made up its mind to see them go, and to accept the doctrine that the aim throughout industry should be not to provide the greatest number of jobs but to accomplish production in the most economical manner?

Discount Rates.

Discount rates of each Federal Reserve Bank approved by the Federal Reserve Board up to May 24, 1918.

Federal Reserve Bank.	Maturities. Discounts. Within 15 days, including member banks' collateral notes	16 to 60 days, inclusive	61 to 90 days, inclusive	Agricultural and live-stock paper over 90 days	Secured by U. S. certificates of indebtedness or Liberty Loan bonds: Within 15 days, including member banks' collateral notes	Secured by U. S. certificates of indebtedness or Liberty Loan bonds: 16 to 90 days, inclusive	Trade Acceptances: 1 to 60 days, inclusive	Trade Acceptances: 61 to 90 days, inclusive
Boston	4	4½	4¾	5	4	4¼	4½	4½
New York*	4	4½	4¾	5	4	4¼	4½	4½
Philadelphia	4	4½	4¾	5	4	4¼	4½	4½
Cleveland	4½	4¾	4¾	5¼	4	4½	4½	4½
Richmond	4½	5	5	5½	4¼	4½	4½	4½
Atlanta	4	4½	4¾	5	4	4¼	4½	4½
Chicago	4	4½	5	5½	4	4¼	4½	4½
St. Louis	4	4½	4¾	5½	4	4¼	4½	4½
Minneapolis	4	4½	5	5½	4	4¼	4½	4½
Kansas City	4½	5¼	5½	5½	4¼	4½	4½	4½
Dallas	4	4¾	5	5½	4	4¼	4½	4½
San Francisco	4	4½	4¾	5½	4	4¼	4½	4½

*Rate of 3 to 4½ per cent for 1-day discounts in connection with the loan operations of the Government.

Note 1. Acceptances purchased in open market, minimum rate 4 per cent.

Note 2.—Rates for commodity paper have been merged with those for commercial paper of corresponding maturities.

Note 3.—In case the 60-day trade acceptance rate is higher than the 15-day discount rate, trade acceptances maturing within 15 days will be taken at the lower rate.

Note 4. Whenever application is made by member banks for renewal of 15-day paper, the Federal Reserve banks may charge a rate not exceeding that for 90-day paper of the same class.

"City Bank Service"

THE NATIONAL CITY BANK OF NEW YORK

Condensed Statement as of May 10, 1918.

ASSETS

CASH on hand, in Federal Reserve Bank and due from Banks and Bankers and United States Treasurer	$151,779,713.92	
Acceptances of Other Banks	35,397,183.63	
UNITED STATES TREASURY CERTIFICATES maturing in less than 90 days	140,512,500.00	$327,689,397.55
UNITED STATES BONDS	$25,449,526.20	
Loans and Discounts	310,702,357.99	
Other Bonds	39,291,806.09	
Stock in Federal Reserve Bank	1,500,000.00	376,943,690.28
Due from Branches		14,058,790.31
Banking House		5,000,000.00
Customers' Liability Account of Acceptances		20,637,939.26
Other Assets		2,911,280.35
TOTAL		$747,241,097.75

LIABILITIES

CAPITAL, Surplus and Undivided Profits	$74,994,970.02
DEPOSITS	628,196,322.63
Reserve for Expenses, Taxes, and Unearned Interest	4,605,767.41
Circulation	1,756,300.00
Rediscounts and Foreign Bills of Exchange Sold	9,963,889.69
Acceptances, Cash Letters of Credit and Travelers Checks	22,181,039.01
Other Liabilities	5,542,808.99
TOTAL	$747,241,097.75

1812

THE NATIONAL CITY BANK OF NEW YORK

1918

Economic Conditions
Governmental Finance
United States Securities

NEW YORK, JULY, 1918.

The Kaiser's War Council.

THE story which Mr. Morgenthau, the American Ambassador at Constantinople, has told in the June number of the "World's Work," of the German War Council at Potsdam on July 5, 1914, as he received it from Baron Wangenheim, the German Ambassador at Constantinople, agrees with the Lichnowsky story of which an abstract was given in these columns recently, and other accounts of the preparations for war with which Germany was busy while the rest of the world was ignorant of the impending calamity.

It is very important that the civilized world shall fully understand the complete hollowness of the German plea of self-defense, and the duplicity with which the Emperor after preparing the mine with a time fuse, went off for a trip on his yacht, to be taken by surprise when the explosion occurred.

Baron Wangenheim disappeared from Constantinople soon after the assassination of the Grand Duke and Duchess at Sarajevo, and after the declaration of war told Ambassador Morgenthau of the momentous conference which he had attended. Mr. Morgenthau says:

"This meeting took place at Potsdam on July 5th. The Kaiser presided; nearly all the ambassadors attended; Wangenheim came to tell of Turkey and enlighten his associates on the situation in Constantinople. Moltke, then Chief of Staff, was there, representing the army, and Admiral von Tirpitz spoke for the navy. The great bankers, railroad directors, and the captains of German industry, all of whom were as necessary to German war preparations as the army itself, also attended.

"Wangenheim now told me that the Kaiser solemnly put the question to each man in turn. Was he ready for war? All replied 'Yes' except the financiers. They said that they must have two weeks to sell their foreign securities and to make loans. At that time few people had looked upon the Sarajevo tragedy as something that was likely to cause war. This conference took all precautions that no such suspicion should be aroused. It decided to give the bankers time to readjust their finances for the coming war, and then the several members went quietly back to their work or started on vacations. The Kaiser went to Norway on his yacht, von Bethmann-Hollweg left for a rest, and Wangenheim returned to Constantinople.

"In telling me about this conference, Wangenheim, of course, admitted that Germany had precipitated the war. I think that he was rather proud of the whole performance; proud that Germany had gone about the matter in so methodical and far-seeing a way; especially proud that he himself had been invited to participate in so momentous a gathering. The several blue, red, and yellow books which flooded Europe the few months following the outbreak, and the hundreds of documents which were issued by German propaganda attempting to establish Germany's innocence, never made any impression on me. For my conclusions as to the responsibility are not based on suspicions or belief or the study of circumstancial data. I do not have to reason or argue about the matter. I know. The conspiracy that has caused this greatest of human tragedies was hatched by the Kaiser and his imperial crew at this Potsdam conference of July 5, 1914. One of the chief participants, flushed with his triumph at the apparent success of the plot, told me the details with his own mouth. Whenever I hear people arguing about the responsibility for this war or read the clumsy and lying excuses put forth by Germany, I simply recall the burly figure of Wangenheim as he appeared that August afternoon, puffing away at a huge black cigar, and giving me his account of this historic meeting. Why waste any time discussing the matter after that?

"This Imperial Conference took place July 5th; the Serbian ultimatum was sent on July 22nd. This is just about the two weeks' interval which the financiers had demanded to complete their plans. All the great stock exchanges of the world show that the German bankers profitably used this interval. Their records disclose that stocks were being sold in large quantities and that prices declined rapidly. At that time the markets were somewhat puzzled at this movement; Wangenheim's explanation clears up any doubts that may still remain. Germany was changing her securities into cash, for war purposes. If any one wishes to verify Wangenheim, I would suggest that he examine the quotations of the New York stock market for these two historic weeks. He will find that there were astonishing slumps in quotations, especially on the stocks that had an international market. Between July 5th and July 22nd, Union Pacific dropped from 155½ to 127½, Baltimore and Ohio from 91½ to 81, United States Steel from 61 to 50½, Canadian Pacific from 194 to 185½ and Northern Pacific from 111¼ to 108."

Dr. Muhlon's Revelations.

Dr. Wilhelm Muhlon, at the outbreak of the war a director of the great Krupps company, whose story of his discovery that war was impending was given here with the Lichnowsky abstract a few months ago, has given out a further statement in Switzerland, where he is now living. One feature of it is a vindication of Belgium from any complicity in bringing on the war or knowledge that it was impending. He tells of the guns which Krupps had made for Belgium, and which were ready for delivery before the war, but at the request of Belgium were not delivered. He says:

"Belgium drew virtually all her war material from Germany. and depended upon us for models and manufacture. Thus 28-centimeter guns for fortifying Antwerp had been ordered and were ready for delivery. The earthworks at Antwerp, however, were not sufficiently advanced and Belgium asked us to keep them, and shortly before the war even offered to pay storage on the guns if they were kept until it was convenient to accept them. The guns, therefore, were held, and when the war broke the Prussian War Minister took possession of these valuable cannon and turned them to his own uses."

The Crops.

Reports come from trustworthy sources of serious damage to crops in Nebraska and the southwest by intense heat during the last week of June. Wheat fortunately was so far advanced as to suffer least, and the authorities, placing the highest estimate on damage, still count on the winter crop for 600,000,000 bushels. Conditions in the spring wheat states are good, except in western North Dakota and

parts of Montana. Oats and corn in the first-named territory have been hurt, but in other states still have good promise. The Canadian crops are in good condition. The minor field and garden crops are doing well and this is true generally of fruit, although in some sections the severe winter did considerable damage to fruit trees.

General Business Conditions.

Government control over the industries is rapidly extending. The War Industries Board has laid the country off into twenty districts for the purpose of making an intensive study of industrial capacity and of utilizing and converting existing industries for war work. Another Government organization, recently formed under the Department of Labor, known as the United States Employment Service, has divided the country into thirteen districts, and after August 1st will have general supervision over the distribution of labor, apportioning the floating supply and regulating the movement. The object is to reduce the enormous turnover which lowers efficiency, and to put a check upon competitive bidding. It is evident that there must be some restraint upon the latter where the Government is the principal purchaser, but it is a very delicate matter to attempt to place restrictions upon individual bargaining, particularly when conditions are favorable to the wage-earners.

The volume of general trade is undiminished, although the actual turnover of goods is possibly less than a year ago, but merchants complain of increasing difficulty in replenishing stocks, and manufacturers whose products do not entitle them to priority orders have increasing difficulty in getting materials. Looking to the future it is evident that trade in non-essentials will dwindle because the goods cannot be had. The earnings of the wage-working population are still rising, by reason of full time, the employment of women and higher wages, and this insures a heavy trade in the unrestricted lines.

All of which answers the fears of the people who are still afraid that a reduction of accustomed expenditures by the public will bring on a state of unemployment and business prostration. The mandatory curtailment of the industries is far outdoing voluntary action.

The steel industry is under practically complete control, all distribution of product being subject to supervision, and Government authority or direction is extending in all lines. Manufacturers are co-operating to reduce the number of styles and varieties of products. Thus in agricultural implements, tools, and stoves the number which must be carried in stock is materially reduced. The number of styles of shoes and of varieties of paint is much reduced, and this policy is generally pursued. The distribution of coal is under strict regulation and investigation will be made of power plants to determine whether they are operated with proper economy.

A strike in the New Bedford cotton mills was averted last month by a wage increase of 17½ per cent. Wages there are now 80½ per cent. above the rates prevailing on January 1, 1915. The last general wage increase in the steel industry went into effect on April 15 last and was 15 per cent. Two increases of 10 per cent. each were made in 1917 and three of 10 each in 1916.

The Money Market.

The money market passed through the month of June and the heavy tax payments with little of the strain at one time anticipated, thus repeating the familiar experience that troubles which are foreseen are seldom realized. Interest rates are practically unchanged.

The arrangements made by the Treasury were such as to avert any immediate embarrassment from the transfer of funds, all checks received by the collectors being deposited to the credit of the Treasury in the banks upon which they were drawn. This reduced the problem wholly to one of credit—a question of whether the taxpayers could obtain the accommodations they required and of the extent to which bank credits would be swollen. A call for 20 per cent. of the tax-funds has been made on the New York banks, payable July 2 and 3.

Although only 25 per cent. of the subscriptions upon the Third loan are yet due, 78 per cent., or $3,235,000,000 had been paid to June 27. The Treasury statements are apparently behind time in their figures of receipts of income and excess profits taxes, which for the fiscal year to June 27 were reported at $2,115,722,204, of which $1,588,363,798 were paid in June and $342,-104,796 in May. As the total of these taxes to June 30 is estimated at about $3,000,000,000, it may be assumed that, owing to congestion in Treasury offices, daily statements have not caught up with receipts. If collections correspond approximately to estimates, total payments to the end of the month upon the Third loan and for income and excess profits taxes must have been close to $6,000,000,000.

These payments, however, were not all made in May and June, having been largely anticipated by the sale of Treasury certificates. About $4,-500,000,000 of certificates receivable upon subscriptions to the Third loan or for the taxes were issued, of which all but $1,068,000,000 have fallen due and presumably have been retired. Of the latter, $551,000,000 are due July 9, and $517,-000,000 July 18. The extent to which these certificates were actually used in payments for bonds and taxes does not appear, but in the case of $831,000,000 of the tax certificates sold in the

New York district, $468,000,000 remaining in the banks were redeemed in cash. It will be seen the Treasury had to a very great extent received and expended the proceeds of the loan and of the taxes in advance. The certificates were used to great advantage in spreading the payments over a period of nearly six months.

Banking Conditions.

In order to measure the full expansion of bank credit in connection with payments on the Third loan and for the income and excess profits taxes, it is necessary to go back to about the first of the year, when the issue of Treasury certificates in anticipation of these payments began. The expansion of credit by the Federal Reserve banks is shown by these figures:

	Dec. 29, 1917	June 28, 1918
Bill holdings	$956,072,000	$1,086,023,000
Government securities	107,333,000	259,066,000
Other earning assets	1,005,000	23,000
Total earning assets	$1,064,410,000	$1,345,112,000
Increase		$280,702,000

The member banks reporting to the Federal Reserve Board, although only 695 in number, have more demand deposits than all of the national banks, but these compilations are not exactly comparable because the number of banks included has been increased. Their holdings of Government securities, including certificates of indebtedness, and of all other loans and investments on December 28, 1917, and June 21, 1918, were as follows:

	Dec. 28 630 Banks	June 21 695 Banks
U. S. Securities owned	$ 891,626,000	$ 1,582,211,000
Loans secured by U. S. bonds and certificates	388,268,000	511,789,000
All other loans and investments	9,574,047,000	10,328,617,000
Total	$10,853,941,000	$12,422,617,000
Increase		$1,568,676,000

The increase of loans and United States securities in Federal Reserve banks and reporting member banks between the dates named aggregates $1,849,378,000, but this showing is subject to important qualifications.

In the first place, allowance must be made for the fact that there are 65 additional banks in the member bank statement for June 21. It is probable, however, that these are not of the larger banks, and do not greatly alter the figures.

The most important allowance to be made is for the fact that following June 21 the amount of outstanding Treasury certificates was largely reduced by tax payments and redemptions.

Furthermore, the Treasury statement for June 27 shows available cash in the general fund, $1,614,606,652, against $823,000,000 on December 30, 1917, an increase of $791,606,652. This is not very much as disbursements are running, but it is a part of the proceeds of the financing under review, and may be considered as offsetting Treasury certificates outstanding.

If we disregard Treasury cash and bank holdings of certificates, and take account only of the increased loans and discounts of reserve and member banks, the net expansion of credit by these institutions is approximately $1,000,000,000.

Member Banks.

The increase of loans and United States securities in the member banks of the Federal Reserve system, by districts, since last December is indicated by the following statement, compiled from reports to the Federal Reserve Board. Although these include for December only 630 banks and for June 695 banks, they are banks located in the central reserve, reserve, and other large cities, and include probably 85 per cent. of the business of member banks in the system:

RESERVE DISTRICT.	Dec. 28.	June 21
Boston, number of banks	36	42
U. S. Securities owned	$ 28,426,000	50,559,000
Loans on U. S. Securities	44,142,000	54,875,000
All other loans and investments	659,419,000	789,694,000
New York, number of banks	96	98
U. S. Securities owned	435,214,000	848,749,000
Loans on U. S. Securities	227,962,000	274,128,000
All other loans and investments	4,179,107,000	4,203,253,000
Philadelphia, number of banks	44	49
U. S. Securities owned	28,021,000	64,806,000
Loans on U. S. Securities	25,226,000	38,793,000
All other loans and investments	552,974,000	639,317,000
Cleveland, number of banks	73	83
U. S. Securities owned	113,475,000	128,741,000
Loans on U. S. Securities	21,125,000	44,390,000
All other loans and investments	902,768,000	959,756,000
Richmond, number of banks	64	71
U. S. Securities owned	38,408,000	60,560,000
Loans on U. S. Securities	10,152,000	17,446,000
All other loans and investments	292,396,000	351,200,000
Atlanta, number of banks	35	35
U. S. Securities owned	32,877,000	45,792,000
Loans on U. S. Securities	2,271,000	5,989,000
All other loans and investments	268,854,000	244,425,000
Chicago, number of banks	85	95
U. S. Securities owned	64,321,000	128,076,000
Loans secured by U. S. Bonds	34,673,000	38,631,000
All other loans and investments	1,509,687,000	1,380,273,000
St. Louis, number of banks	31	32
U. S. Securities owned	33,272,000	58,363,000
Loans on U. S. Securities	8,897,000	14,733,000
All other loans and investments	150,671,000	381,885,000
Minneapolis, number of banks	18	30
U. S. Securities owned	10,148,000	24,805,000
Loans on U. S. Securities	1,305,000	4,745,000
All other loans and investments	216,870,000	232,671,000
Kansas City, number of banks	68	72
U. S. Securities owned	30,123,000	44,540,000
Loans on U. S. Securities	3,789.000	4,581,000
All other loans and investments	432,394,000	461,037,000
Dallas, number of banks	38	40
U. S. Securities owned	28,966,000	44,366,000
Loans on U. S. Securities	3,346,000	5,913,000
All other loans and investments	181,262,000	164,329,000
San Francisco, number of banks	42	48
U. S. Securities owned	48,371,000	82,854,000
Loans on U. S. Securities	5,380,000	7,565,000
All other loans and investments	447,645,000	520,777,000

It will be noticed that three reserve districts show a reduction of other loans and investments, to wit: Chicago, Atlanta and Dallas. The reduction in the Chicago district is large, reflecting the heavy demands that were made upon the banks of that territory last fall, and the liquidation of loans in the spring months. The increase in this class of paper in the New York district is very slight, but in holdings of Treasury certificates, large.

National Banks, One Year.

The Comptroller of the Currency reports loans and discounts of all national banks on May 10, 1918, as aggregating $9,260,000,000, an increase

of $508,000,000 over those of May 1, 1917, and deposits on May 10 as $14,385,000,000, an increase of $1,309,000,000 over those of May 1, 1917. It would be a mistake, however, to assume that loans had not been keeping pace with deposits, for the re-discounted paper held by the Federal Reserve banks on May 3, 1918, aggregated $1,170,471,000, against $119,787,000 on May 4, 1917. The difference, $1,050,684,000, represents paper passed up to the reserve banks by the member banks. The latter still have a contingent liability upon it, but it no longer appears in the figures for their loans and discounts. The condition of the reserve banks and other banks must be taken together to get a full statement of the situation. The above figures are exclusive of holdings of Government obligations.

Significance of Expansion.

It must be remembered as we read of the extraordinary growth of banking resources, that the liabilities are growing at the same rate. When a bank makes a loan the customer's obligation increases the resources, but the entry which is made to his credit creates a corresponding liability. Transactions of this character are rapidly swelling the banking totals.

In order to have a complete showing of the effects of the Government loans and taxation of the past six months upon the banking situation, it would be necessary to have the figures for the state institutions, which are not available. The expansion of bank credit does not appear very great considering the size of the transactions—indeed it is marvelously small—but in view of the vast demands which must be met in the coming year every increase is to be regarded with concern.

In saying this we are not considering the adequacy of reserves, or indicating any anxiety that the credit organization of the country is reaching the limit of what it can carry. That is not the point. The banking power of the country as organized in the Federal Reserve system can extend credit almost indefinitely, but there are certain consequences which cannot be avoided, and which we have often adverted to. This new credit is additional purchasing power, and when purchasing power increases faster than the supply of labor or goods, wages and prices inevitably rise.

It is said that more credit is necessary in order to handle the same quantity of goods, on account of the higher prices, and certainly this is true. A certain cotton mill which ordinarily has $1,000,000 worth of raw cotton on hand, now has $2,000,000 tied up in practically the same quantity. The demands created by the war are the primary influence, but the effects are aggravated because the consuming public does not give way to the war demands. The public tries to proceed with its own consumption as usual, and, contesting for the supply, bids up the price. Under these conditions, with demand exceeding any possible supply, the creation of more credit provides facilities by which the competition for labor, materials and goods may be pushed still farther. The remedy is not in helplessly following and financing this endless movement, but in setting a brake on private demands. The cat which attempts to catch her own tail does not get any nearer to it at top speed than when standing still. An expansion of credit to increase production is one thing, but an expansion of credit which enables private wants to compete with the Government is another thing, and the latter is something to beware of.

The outlook now is for large crops and high prices are assured for them. The cotton crop in sight, if sold at 25 cents per lb., more or less, will require an almost fabulous amount of credit, and there is a wheat crop of around 1,000,000,000 bushels, large yields of other products, and the prospective fall trade which high purchasing power in the farming districts always creates. Evidently the demand for money to handle the regular business of the country this fall is going to be very strong, and in addition, or, rather, ahead of all this, the demands of the Treasury will be heavier than heretofore.

Treasury Estimates and Plans.

The Secretary of the Treasury has given to the Chairman of the House Committee on Ways and Means an estimate that the sum required for disbursements in the fiscal year beginning with the present month will be $24,000,000,000, and also his opinion that not less than one-third of this amount should be raised by taxation. The suggestions which he has offered relative to additional taxes were well considered and have met with little criticism. He proposed (1) a real war profits tax, i.e., a tax upon profits in excess of those received in normal times to be super-imposed upon the existing taxes, (2) an increase of the taxes upon unearned incomes, and (3) heavy taxation upon luxuries.

He refers to the unjust discrimination against earned incomes imposed by the present 8 per cent occupation tax, which, together with the normal tax of 4 per cent amounts to a levy of 12 per cent on earned incomes in excess of $6,000, and recommends a new tax on unearned incomes which would raise the total on these to above 12 per cent.

Referring to the necessity for heavier taxes than at present levied, he emphasizes the purpose served by taxation in enforcing economy, using the following language:

> I doubt seriously if the Government can be financed with only $1,000,000,000 derived from taxation, because, with a tax bill no larger than this, sufficient economies will not be enforced upon the people of America, and without such economies I see no way in which the great financial operations of the Government can be safely conducted.

This statement is far-reaching in its significance, going to the very core of the Government's problem of equipping its armies. Over and over again it must be repeated that this can only be done by drastic economies, which will radically curtail the private demands of our people for labor and all the goods and supplies which require labor in their production. It is not merely a question of raising money, or primarily that. It is a question of how far we are willing to surrender the shops, the coal mines, the railways and the labor supply to work for the Government, and forego our usual demands for the services and goods to this end. We say we are willing to make sacrifices and doubtless think so, but in many instances those sacrifices consist in higher payments for what we want. The average man's idea of the present situation seems to be that he must have higher pay for his own services in order that he may buy as much as before and have enough over for the Red Cross and other war expenses.

The economy which helps now is that which reduces the private consumption of all those essential things wanted for the equipment of the armies and for the support of our allies. The thought expressed by Secretary McAdoo is that this will not be obtained except by taxation which reduces the purchasing power of the people. Are the people ready to accept this as applied to the things of common consumption, and will Congress accept it with that application? It will be well of course to come down heavily upon the luxuries of the rich, but there will be no large gains from that source either in revenues or savings from consumption, because the luxurious rich are not sufficiently numerous. If the results are to be important there must be economies by the great body of comfortably-off people, and not alone in luxuries but in necessities. It is quite as important to eke out the supply of necessities as to save elsewhere.

Loans of $16,000,000,000.

If Treasury disbursements reach $24,000,000,000, and taxation provides $8,000,000,000, there will remain $16,000,000,000 to be raised during the year by loans. It goes without saying that with taxation which cuts deeply into profits there will be less money available for loans in some quarters where the subscriptions have been large heretofore. This does not prove that the policy of heavier taxation is unwise, but it does make the task of also raising $16,000,000,000 in loans look more formidable. There is only one comment to be made upon the proposition, which is that the industries of the country will have to be far more productive this year than they were last, or much more completely concentrated upon war work, in order to do $24,000,000,000 worth of work for the Government. If they are more productive, the earnings of the people will be larger and they can buy more bonds and stamps; and if there is greater concentration upon war work, there will be less products for private consumption, the people will be necessarily practicing economy and will have more money to lend to the Government.

In the month of May Treasury disbursements were $1,508,195,232, and for the month of June they have been at about the same rate. The activities of the Government are constantly extending, and it is probable that the expenditures will increase. If the Government is getting ships, guns, aeroplanes and munitions to correspond with increased outlays the country should welcome the increase, but if expenditures are increasing because costs are rising in an endless chain, and because the public is spending, consuming and borrowing where it ought to be economizing, saving and paying out of income, the country should take notice and mend its ways.

The resources of the country must be thoroughly organized and matched against its needs. The great agricultural crops which will make such a huge demand for credit in the fall, will be in part transferred to the workers in the industries in payment for their services, and in part to our allies abroad in exchange for their promises to pay, but the farmers at present prices probably can take a large part of their pay in Liberty bonds. The wage earners in the shipyards and elsewhere are expected to do likewise. The greater the receipts of every group the more they will be able to do for the Government's support, and from present indications the earnings of 1918 will far surpass any other year in the country's history. They will also be more widely distributed than ever before, and this makes more difficult the task of gathering them up for the Treasury.

Temporary Financing.

The Secretary of the Treasury will continue the practice, which has proven so satisfactory, of anticipating forthcoming loans and tax-collections by issues of short-time certificates of indebtedness. He announces his intention of offering every two weeks $750,000,000 of certificates drawing 4½ per cent. interest, the first block to be dated July 2. He asks the banks of the country to arrange to invest an amount equal to 2½ per cent of their gross resources in each offering for a period of eight weeks, which will provide in the aggregate $6,000,000,000. It is apparent that no other method of disposing of issues of this size would be successful than by thus indicating what it is necessary for each institution to do. The first issue will mature October 24, 1918.

The Secretary also announces that he will in a few weeks offer an issue of certificates of

suitable maturities which will be receivable for taxes due next year. The extent to which these are disposed of may affect his $750,000,000 bi-weekly offering.

War Finance Corporation.

The War Finance Corporation is organized and ready to do business, but a serious difficulty has been encountered in dealing with the class of cases for which it seems to have been chiefly designed, which consists of corporations in need of capital either for refunding or expansion purposes. It had been assumed that bankers would provide the capital wanted in such instances, and then recoup themselves by borrowing upon their own notes through the War Finance Corporation, which, above its own capital of $500,000,000, would obtain credit at the Federal Reserve banks. But it develops, as might have been foreseen, that bankers are unwilling to expand their liabilities in this manner. Commercial bankers would be outside their proper field of operations in lending their credit for the purpose of providing fixed capital, and investment bankers would find the policy equally impracticable. Their business is not to carry investments, but to distribute them, and they need to have their capital in hand.

The fact is that loans of the character contemplated do not belong in commercial banks or in the reserve banks, and it was a mistake to plan for handling of them through this channel. They should go to the investment market, and if they cannot stand alone there have such help as may be necessary from the War Finance Corporation or the Government. It is true that the Government does not like to divide the public market at this time with other applicants for capital, and should not do so except as the services of other applicants are of public importance; but if their services are indispensable and their needs imperative, there is no escape from it, and it is useless to camouflage the situation by throwing them upon the reserve banks. The largest of these demands are for refunding purposes, and these do not reduce the supply of capital on the market. Now that the Government, through its control not only of flotations but of the industries, virtually has control over the capital reservoir, it loses practically nothing by allowing refunding offerings to go to the public, and their success is mainly a question of terms.

Presumably the public utility companies can handle themselves by meeting market conditions, if their credit is supported by fair treatment on the part of the communities in which they are located. It is perfectly evident that the public utilities are in a hard situation, with their income restricted by fixed rates of compensation and their expenses increasing under war conditions. The situation is so plain that the public should not hesitate to meet it. Since the Federal Government has become responsible for railroad earnings it has been prompt to recognize the necessities, and to safeguard itself with a liberal margin to spare. The example should be adopted by municipalities to the extent of allowing a fair readjustment of earnings to expenditures. If, beyond doing this, something more is necessary in some instances, the capital and credit of the War Finance Corporation may be properly used.

The Bond Market.

New bond issues during the month of June have been in larger amount than for some time past and the prices paid by corporations are an indication of the trend of money rates and future market conditions. The first long-term railroad financing is represented in the successful sale of $20,000,000 Union Pacific Railroad Company Ten-Year 6% Secured Gold Bonds at 98 and interest, to yield a little over 6.25%. The Baltimore & Ohio has disposed of $10,500,000 Three-Months 6% notes at approximately par and interest. It is believed that the approval of these issues by the railroad administration will lead to the flotation of other issues of similar character.

Another important offering during the month was $60,000,000 Armour & Company 6% Convertible Gold Debentures maturing 1919-1924, at prices ranging from a 6¾% to a 7⅛% basis. The original underwriting was offered by Chicago bankers, and it is reported that dealers in practically every large city in the country participated.

The action of the War Finance Corporation in relation to the payment of $57,735,000 Brooklyn Rapid Transit 6% Notes maturing July 1, 1918, may be taken as an indication of its policy regarding public utilities. The corporation will advance 30% of the amount of the issue and the remainder will be refunded by an issue of three-year 7% notes. During the month, pending the final decision, the market on the notes was subject to considerable fluctuation, the closing quotation being 96½.

Dealers throughout the country report an excellent private investor business during the month, and many of the houses state that while their volume of business has not been up to normal the number of transactions indicates a widespread interest among small buyers.

Following are the more important issues offered:

$ 1,000,000	Atlas Crucible Steel Co. 7% Notes, due May 1, 1919-1923 at prices to yield from 7½ to 8%.
2,676,000	Detroit Edison Co. First & Refunding 5% Bonds, due July 1, 1940 at 91 and interest, yielding about 5.70%.
10,500,000	Louisville Gas & Electric Co. First & Refunding 7% Bonds, due June 1, 1923 at 98 and interest, yielding about 7½%.
3,000,000	Mid-Co. Petroleum Co. First Mortgage 7% Bonds, due Nov. 15, 1918-1921 at prices to yield from 8% to 8¾%.
3,420,000	New York, New Haven & Hartford 6% Equipment Trust Certificates due Nov. 15, 1918-1928 on a 6% basis.
12,250,000	Puget Sound Traction, Light & Power Co. 7% Notes, due June 1, 1921, at 98 and interest, yielding about 7¾%.
1,000,000	San Joaquin Light & Power Corporation First & Refunding Mortgage 6% Bonds, Series C, due August 1, 1950 at 95 and interest, yielding 6.40%.

1,260,000 Utica Gas & Electric Company Refunding & Extension Mortgage 5% Bonds, due July 1, 1957, at 89¼ and interest, yielding about 5.67%.
1,500,000 Philadelphia Electric Co. First Mortgage 5% Bonds due Oct. 1, 1966 at 93 and interest, yielding about 5.52%.

The municipal market has been very strong and active with a tendency toward higher prices on account of the prospect of increased taxes. There were many interesting sales of municipals, the largest being $5,500,000 City of Philadelphia 4½% Bonds, which were offered at 103½ and interest, yielding 4.30%. The City of Newark, N. J., sold $1,073,000 5% Water and Street Opening Bonds maturing 1919-1958 on a basis to yield 4.62%. They were immediately reoffered at prices to yield 4.55%.

Other offerings included:

$ 305,000 Albany, N. Y., 4¾% Street Improvement Bonds on a 4.45% basis.
470,000 Boonton, N. J., 5½% Bonds on a 4.65% basis.
5,000,000 Boston, Mass. Tax Anticipation Notes on a 4.40% basis.
1,470,000 Buffalo, N. Y. 4½% Reg. Bonds on a 4.45% basis.
717,000 Galveston, Texas 5% Bonds on a 5% basis.
850,000 Hagerstown, Md. 5% Water Bonds on a 4.75% to a 4.80% basis.
300,000 Milwaukee, Wis. 5% Serial Bonds on a 4.60% basis.
500,000 Rochester, N. Y. 4.69% Four Months Notes on a 4.50% basis.
200,000 Salem, Mass. Discount Notes on a 4.75% basis.
150,000 Schenectady, N. Y. Certificates of Indebtedness on a 4.70% basis.
500,000 State of New Hampshire 5% Bonds on a 4.15% basis.
445,000 St. Paul, Minn. 4½% and 5% Refunding Bonds on a 4.60% basis.
600,000 Springfield, Mass. Four Months Notes on a 4.45% basis.
522,000 Syracuse, N. Y. 5% Bonds on a 4.50% basis.
195,000 Westfield, N. J. 5% School Bonds on a 4.65% basis.
300,000 Woonsocket, R. I. Tax Anticipation Notes on a 4.60% basis.
400,000 Yonkers, N. Y. Tax Anticipation Notes on a 4.50% basis.

The average price of 40 standard issues, as reported by the *Wall Street Journal* on June 28, was 83.36, compared with 84.48 on May 28 and 90.19 on June 28, 1917.

Stock Flotation in the Middle West.

The Liberty loans and subscriptions to the Red Cross, Y. M. C. A., Knights of Columbus and other relief funds, have by no means drained the country districts of ready money. Reports from the Middle West say that never before has there been so much activity in the promotion of new companies of various kinds. The stock sales are largest in the small towns and to farmers. The situation has been deemed of such importance as to justify a statement by the Des Moines Chamber of Commerce as follows:

The Des Moines Chamber of Commerce submits to the State Council of Defense the thought that there must be some halt called in the promotion of apparently superfluous corporations in Iowa during the war; else the volume of available capital necessary to assist in winning the war will not be sufficient.

Companies are being capitalized and their stock floated at enormous figures at this time. Such capital not infrequently amounts to more than one million dollars, and in many cases as high as two million dollars per company.

This undoubtedly is a serious drain on capital in Iowa at this time, and has a tendency to reduce the fullest efficiency of Iowa capital for the legitimate purposes of the government during a time of war.

The Secretary of State for Iowa on May 25 made the following statement relative to the organization of new Iowa corporations and the granting of permits under the "blue sky law" for the sale of stock in foreign corporations:

Most of the corporations selling stock in Iowa at this time are Iowa concerns. The records of the secretary of state show that since the first of January of the present year 338 Iowa companies have incorporated under the laws of this state and are entitled to sell their stock without any special permit.

During the same period the secretary of state has granted permits to fifty-six corporations of other states that have complied with the requirements of the blue sky law. Such of these corporations as have been admitted are only about half the number that have made application for admission.

Of the 338 domestic corporations that have been formed during the period referred to, practically none has been capitalized for less than $10,000, and from that on up to $1,000,000. Seven Iowa concerns have incorporated with a capitalization of $1,000,000 or more, one was incorporated for $2,000,000 and one for 3,000,000.

The total amount of stock authorized to be sold in Iowa by corporations admitted under the blue sky law aggregates a trifle less than the aggregate amount of capital stock of the nine Iowa million dollar corporations referred to.

Other states in the Middle West are the scenes of similar operations. The high prices of products have made money plentiful, and the agricultural districts should be permanently benefited, but this may not be so if the surplus income now being received is absorbed by the flotation of new enterprises, more or less speculative.

The supervision of the Capital Issues Committee, which is now established by law over all issues of securities of over $100,000 in amount, where the proceeds are for raising new capital, will presumably put a check upon these flotations.

Conscription of Wealth.

A correspondent writing to us and taking issue with some features of the article upon the "Conscription of Wealth" in the June Bulletin, says:

"This tax on capital could, of course, be paid with the debentures themselves, and it would not be a very difficult banking proposition to arrange for such mobilization of them as would permit of their acquisition by the tax payer not in possession of any, and at the same time extend to such tax payer some sort of banking credit on his other assets which would enable him to purchase debentures.

"Cannot the whole matter be reduced to a very simple illustration? Assume that ten men worth $10,000 each constitute a community. Ten per cent. of the wealth of each consists of debentures issued, let us say, to purchase a vessel which has been lost. A capital tax of 10 per cent. would retire the said debentures and leave each man with exactly the same amount of real capital that he had before. Now consider the United States as a single community, and does not the above illustration multiplied by thousands, and of course almost infinitely complicated, still substantially hold true?"

Over against this we have the following from the letter of another correspondent, approving of our view:

"The public does not understand that a small estate, like mine, for example, is not in cash, but is invested in things that have no market value that at all represents their cost to me. Any private estate represents a series of investments, many of which are lost, some of which have grown in value.

"On the whole, and as a rule, the appraisement of an estate comes no where near the sacrifices and savings of a life time.

"Cannot you point out that if the Government is going to conscript assets it ought to take my estate, for example, put an appraisement on everything I have, and let me pay my taxes by turning over to the Government one piece of property after another at my option. If this was done the benefit to the Government would be very small. It would get lands which are used for farms today with the idea of having prospective value some day, stocks of great promise and no returns, petty interests in manufacturing and public service corporations, etc.

"The alternative is that the Government should demand a certain amount of money from me, and to realize this I should simply have to go to the Banks and borrow it until such time as I could release securities by unloading them on someone else at a minimum loss."

If the actual situation corresponded to the illustration of the first quotation the disposition

of the debt would be a simple matter, and it would be of little importance whether the debt was paid or not. But the second quotation suggests wherein that illustration is wide of the truth. The debt is not held by all property-owners in like proportions, and, furthermore, all property-owners are not equally able to raise a given percentage of their property values in cash at a given time. The first writer is very much in error in assuming that it would be no difficult task to make banking arrangements by which all property-owners could acquire a due proportion of bonds. He is apparently misled by the liberal facilities now granted to encourage subscriptions to the Liberty bonds, but borrowing to buy bonds to be surrendered for cancellation would be a different proposition.

How would it be managed by the large number of property-owners whose assets are already pledged for indebtedness, and how would such capital levies affect the credit of this class and their ability to take care of present obligations? As taxes constitute a claim ahead of mortgages, the holders of the latter would be alarmed and want payment or curtailment.

We would repeat our statement that if the Government should attempt to levy taxes in excess of incomes, the owners would be obliged to either borrow or sell, and this pressure upon a great number of people would create chaotic conditions, affecting not only the property-owners directly involved, but the entire business and financial situation, including industry and employment. The proposition assumes that anyone who is in debt can pay his debts immediately as well as at some other time, which most people who have been in debt know to be untrue. Even if it be allowed that the people who have property should carry and pay all of the debt—which is an extreme proposition if the acquisition of property is something to be encouraged—it should be done in a manner which will not cause a large proportion of them to sacrifice their holdings or throw the whole business communitiy into confusion. The community has nothing to gain by dispossessing people of their property, or by policies which harrass and cripple them in its management.

Private and Public Wealth.

The discussion of questions of this character is made difficult because so many people fail to comprehend that property in private hands engaged in producing things for the public market is to all practical purposes public wealth. It is employed in serving the public, and if taken over by the Government could only be used in the same manner. The wealth of a country consists of the wealth of its people and the supplies of goods for daily consumption would be no greater—and probably much less—if all productive property was taken over by the Government. It is only necessary to look at Russia to see this statement illustrated.

Large business concerns operating branches find it advantageous that the managers in charge shall have an interest in the business they are conducting, and in like manner the owners of productive property serve the community as business managers. The aggregate wealth of the country is greater, and the production of the consumable things which minister to the comfort of the people is greater, because the productive properties are in the hands of a multitude of private owners, than would be the case if the state owned everything. A direct incentive is stimulating the wits and energies of every ambitious individual, and society as a whole derives benefits from every individual's success. Each person who accumulates a dollar's worth of wealth, or discovers a new industrial process, makes a contribution to the public. Society is not only the residuary legatee but an immediate partner in every individual's achievements.

Mayo Brothers, the famous surgeons of Rochester, Minnesota, have recently announced their purpose to turn their institution, including assets valued at $1,600,000, over to the University of Minnesota, as a free gift to the State. This is admirable, but will the institution render any other or greater service to the public under the management of the University than it has been rendering under private ownership? The University management will take up the work where the Mayos leave off. The latter have put their lives into the service of the public. They have had their living from it, but all else has gone back into the work of enlarging the institution to care for the increasing applications by the public for its services. The institution could not have been built up to its present proportions without the earnings it has made. If the State had owned it from the beginning the same amount of money would have had to be found either by taxation or direct charges for services rendered. And the value of freedom for individual initiative is seen in the development of this great institution in a small country town.

An Industrial Enterprise.

The history of industrial enterprises is like this. They develop by means of the earnings they make. The corporation of Armour & Co., the stock of which has been closely owned in the past, is just now being opened up to the public by the sale of $60,000,000 of debenture bonds which are convertible into preferred stock. The profits of the beef packers aggregate large sums, as the result of a rapid turnover and very large aggregate sales, but the percentage of profits upon sales is very small, as many who have failed in the business can testify. With Armour & Co. in 1917 the average profit upon food products was 2.21 per cent, which means that upon each $1.00 of sales 97.79 cents was disbursed either to farmers or for operating costs, and 2.21 remained to Armour as compensation for capital, credit and management.

But this profit of 2.21 per cent was not withdrawn from the business. For many years no dividends were paid on Armour & Co. stock, the earnings being kept in the business for its development. Last year the dividends were less than two per cent on the capital actually employed, and in the last three years with aggregate profits of $52,000,000, $46,000,000 has been turned back into the business, and now the management is borrowing $60,000,000 and inviting the public to become permanently interested to that extent. These figures show the growth of the capital employed, and the public necessity that capital shall be provided by somebody. If the Government had owned the Armour business and conducted it with equal skill and economy it would have had to provide the same amount of capital either by taxation or as Armour has raised it, by charges for the service rendered. The earnings withdrawn from Armour & Co. have borne an insignificant relation to the volume of business handled or the capital employed, and if those withdrawn could be traced it would probably be found that to a great extent they were productively used elsewhere.

Railway Investments.

The railway situation may be analyzed in like manner. The Government has taken over the railways for the period of the war and one year and nine months after, agreeing to pay as compensation for the properties a standard return which is to be the average of the net earnings for the three years ended June 30, 1917. The aggregate return to all the companies on this basis will be approximately $945,000,000 per year, and the Government Railroad Administration, to begin with, has approved a budget for improvements and equipment of $938,000,000, and these expenditures are to meet immediate needs with practically no provision for extensions.

The standard return, $945,000.000, is the amount which the officials of the companies have understood they were to have in lieu of operating revenues, and out of it they must meet all corporate obligations other than those directly chargeable to operations. Interest on the funded debt is the chief of these, and the aggregate is estimated at approximately $500,000,000, which would leave about $445,000,000 for dividends and reserves. The largest distribution of dividends ever made in one year, eliminating intercompany duplications, was not over $275,000,000. The gross earnings for the calendar year 1917 were approximately $4,000,000,000.

Railway officials and owners of railway securities and stocks are now disturbed over the position taken by the Administration in claiming the right to draw on the fixed compensation for funds to make improvements, a policy which if carried to extremes might leave nothing for dividends. It is no doubt a fact that a sum in excess of the entire net earnings of the railways ought to be invested every year for their development, in order to keep their facilities up to the growing needs of the country. It is probable that a considerable share of the disbursements for interest and dividends on railway securities has been re-invested in such securities, but where earnings permit security-holders ought to have the privilege of receiving such income and disposing of it as suits their individual convenience and choice.

It is not our purpose here to deal with the merits of the present issue between the Companies and the Administration, but to point out the great amount of new capital which must be continually found for the railways and the comparatively small part of the earnings which are distributed to the owners. Now that the Government operates them the situation is not materially different from what it was before, and if it should buy out the present owners the same necessity for surplus earnings would exist, unless the roads were to be supported and developed by taxation. And industries supported by taxation must be supported at the expense of other industries. A surplus above current consumption must be gained somewhere.

The recent advance of approximately 25 per cent in all charges, following an advance of 15 per cent in freight rates for the eastern roads last year, is timely evidence that services rendered by Governments are not free, but have to be paid for like services rendered by individuals and corporations, and that the question whether it is better to have the roads operated by the Government or by private parties is one of practical efficiency.

The Same Throughout Industry.

Similar illustrations may be given indefinitely. The great bulk of private profits are turned back into industry to finance increased production or service. There could be no experiments or development, no additions to equipment or substitution of machine-power for hand labor, without surplus earnings, and it is by such means that the hard tasks of labor are lightened and the supply of comforts increased. The public is interested in profits that are applied to such purposes; indeed, it holds the chief interest in them, in the sense that the railroads are worth vastly more to the public than to their owners.

It is an incontrovertible fact, susceptible of proof by a million illustrations, that profits returned to industry to increase production are devoted to a public use; it is only as they are withdrawn to minister to the personal wants of the owner that they lose this public character. If the inheritor of a fortune invested in a productive industry, should earn his own living by personal efforts throughout his life-time and allow the gains of his inheritance

to accumulate as effective capital in industry, his fortune would be as fully devoted to the public during that time as though it was the property of the State. If the reader doubts this let him conceive that the fortune was in land and that all of the income was used for underdraining and otherwise improving the land, providing buildings for the care of live stock and equipment for cultivation, with the result that year by year a steadily increasing amount of foodstuffs were sent to the public market.

That portion of the profits of Mr. Henry Fords automobile business which he has invested in the development and manufacture of a farm tractor is not devoted to Mr. Ford's private wants; nor is that portion which he is investing in furnaces for making steel; nor that portion invested in workingmen's houses. If Mr. Ford has exceptional talent for the direction of large productive enterprises the public has no reason to regret that he has an income of $50,000,000 with which to enlarge his operations. If that income comes to him because he has a genius for industrial management, the results to the public are probably larger than they would be if the $50,000,000 were arbitrarily distributed at 50 cents per head to all of the population of this country. And Mr. Ford serves to again illustrate the value of free play for individual initiative, for it is not likely that he would have been originally selected to have charge of a Government automobile factory. He is a leader who has reached his position by a process of elimination; a survivor from a field of competitors.

Real Socialism.

We presented these views some months ago, and the leading journal of the Socialist party in this country commented as follows:

> This statement is simply not true. There is no grievance against a John D. Rockefeller for wasting substance in extravagance, but, although he is highly economical and invests all he can, he is not generally loved by the masses. Even though he gives millions to universities and hospitals and other charities, it doesn't seem to raise him in the popular esteem. And we never heard of anybody commiserating him for dining on crackers and a bowl of milk, or attributing it to him as a virtue, either. For some obscure reason, the virtue of the capitalist in "saving and investing productively" does not endear him to the masses.

If the public benefits of private savings and enterprise are not generally appreciated, perhaps it is because the idea is as novel to many people as it appears to be to the leading light of the Socialist party. And yet this idea of the community value of all productive effort is of the very essence of scientific socialism.

The truth that underneath all of the conflicting interests and competitive strife there is a substantial unity in society, has lessons for all classes. All parties are benefited by increasing the production of those things which are necessary to the common sustenance and welfare, for the supply of these is a common store. We have this brought home to us daily by appeals to save wheat, save meat, save coal, save wool, save transportation space, etc., etc., for the common good. What we abstain from using is available for others; and so if we are able to increase the supply, more is available for all. If the product is serviceable to the public, then the machinery, the investment, the capital and the organization which increase the product are serviceable to the public, and it is a fundamental mistake to discuss private capital as though it was serviceable only to the persons in whom the titles of ownership rest.

Moreover, every member of the community is interested in increasing the efficiency and purchasing power of every other member. This means that aside from altruistic and humanitarian motives there is a common interest and gain in developing the potential capabilities of each individual. The old individualistic attitude toward the shiftless or incompetent man, that his poverty was his own fault and hence a matter of no concern to others, gives way to an understanding of community interests. The entire community, as well as the individuals directly concerned, suffers by a state of unemployment, and by having any portion of its working force ignorant, untrained or unfitted by reason of improper living conditions, for doing effective work.

Lessons of The War.

The war has taught these economic lessons very clearly. It has revealed unsuspected resources in all the countries; not of hidden wealth but of productive capabilities. It is said that the slums of London have disappeared; that with the insistent appeal for labor, enlistments and conscription, the idlers and even the vicious have been swept into useful employment. With millions of the most effective workers in the armies, unheard of sums are raised for war purposes, the war industries are expanded upon an enormous scale, and yet in England and France the population is cared for on the whole as well as in normal times. The conclusion is irresistable that if the same energy and spirit can be continued after peace is restored, and devoted to construction and production, the entire level of living conditions can be raised above that of the past. The lesson is not that more can be had for the poor by exploiting the rich, but that vastly more wealth can be produced by harmonious and fully employed industry than has been realized in the past.

It is apparent that an intelligent citizenship, quick to appreciate its responsibilities, willing to make sacrifices for the common good and capable of a high degree of organization, makes for the power and security of the nation. The mechanic in a shipyard who comprehends the relation of his work at this time to the nation's task, and gives full time and ungrudging effort, is a more valuable citizen than one who takes a day off each week because his wages are good enough to permit it, or who limits his days work

on the theory that he is doing enough for his employer. And so the farmer who produces good crops is a more useful citizen than the farmer who produces poor crops, and the person who avoids waste and extravagance is a better citizen than one who spends freely in personal indulgence, possibly in the belief that he is liberal and benevolent in doing so

The principle is the same in time of peace as in time of war, and if people will respond to the common interest in time of war by working faithfully and zealously at whatever they have to do, why should they not do so after the war, when they understand that the level of living conditions for the entire community may be raised thereby? A new interest is given to every individual's work when it is seen to be related to the common welfare, and a new interest attaches to thrift and economy, capital accumulations and the growth of great industry when the general results are understood. The war, by its unusual demands, has laid bare these relationships, and the result should be on the one hand a keener interest on the part of the community in developing the capacity and usefulness of every individual, and on the other hand a reciprocal interest on the part of each individual in doing his part in the great organized scheme of industry.

STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS JUNE 28, 1918.

(In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco	Total
Gold coin and certificates in vault	[illegible]	300.170	158	[illegible]	6.490	6.765	[illegible]	1,742	8,463	70	6,007	36,682	419,907
Gold Settlement Fund	61,062	[illegible]	[illegible]	[illegible]	16,382	19,207	7.969	22,452	8,125	27,486	8,730	3,926	491,425
Gold with foreign agencies	1.132	5.579	1.132	1.455	570	[illegible]	2.263	647	647	910	566	889	16.275
Total gold held by banks	[illegible]	528.394	48,182	70,786	23,442	26,457	37,721	24,841	17,235	28,466	15,303	41,497	927,607
Gold with Federal Reserve Agents	62.348	265.795	[illegible]	116.916	32.287	[illegible]	182.279	39,004	26.012	33,679	14.045	89,250	987,870
Gold Redemption Fund	2.453	15.000	[illegible]	1,091	236	2 597	2.932	1,654	[illegible]	969	1.252	216	33,544
Total gold reserves	130,084	[illegible]	141,735	[illegible]	55,965	62,256	222,932	[illegible]	44 891	63,114	30,600	130,963	1,949,021
Legal tender notes, Silver, etc.	[illegible]	43.934	552	352	498	746	4.433	1.011	86	333	1,996	409	57,178
Total Reserves	132.912	853.123	145.287	189,145	[illegible]	[illegible]	[illegible]	66,510	44.977	63.447	32.596	131.372	2.006.199
Bills discounted, Members	51.173	[illegible]	60.217	56.178	53.904	28.245	126.000	64.241	44,550	56.396	27.166	41.840	869.175
Bills bought in open mark't	21.638	115,813	18 104	[illegible]	2.946	4.131	18.414	3.121	795	250	1,650	16.006	216 848
Total bills on hand	72,811	375,078	78,321	70,158	[illegible]	32,376	144,414	67,362	45,345	56,646	28,816	57,846	c 1,086,023
U. S. Governm't long-term securities	616	1,517	1,747	7,404	1,233	[illegible]	7,090	2,233	1,338	8,877	3,981	3,461	40,227
U.S. Governm't short-term securities	1,416	197,995	1,643	2,929	1,513	1,171	2,962	511	3,959	1,742	1,465	1,533	218,839
All other earning assets						11			4		[illegible]		23
Total Earning Assets	74,843	574 590	81,711	80,491	[illegible]	[illegible]	154,466	70,106	50,646	67,265	34,270	62,840	1,345,112
Due fr. other F. R. Bks. net		[illegible]	6,166	4,415			1,136		340	2.513		2,860	b 10,632
Uncollected Items	27,634	103,687	44,808	47,121	[illegible]	32,081	107,169	34,013	8,000	40,993	23,873	24,985	530,719
Total deduction from gross deposits	27,634	118,021	50,974	[illegible]	[illegible]	32,081	108,305	34,013	8,340	43,506	23,873	27,845	520,087
5% redemption fund against F. R. bank notes						14	100			[illegible]	137	81	735
All other resources													
TOTAL RESOURCES	235.389	1.545.734	[illegible]	321,172	152.414	129,385	490.236	170.629	103.963	174.618	90,876	222,141	3,872,133
LIABILITIES													
Capital Paid in	6,474	[illegible]	[illegible]	[illegible]	3,924	3,045	[illegible]	3,607	2,802	3,532	2,991	4,448	75,858
Surplus	75	649			116	[illegible]	216		38				1.134
Government Deposits	3,832	21.756	1,392	10.278	6,349	7,094	6,249	5.089	2.416	4,006	6,201	9,893	84,535
Due to members—reserve account	[illegible]	767.013	[illegible]	110.886	41.868	35.772	177 221	[illegible]	36.998	65.723	36,214	67,483	1,557.587
Collection Items	20.411	53,191	[illegible]	27,206	22.049	[illegible]	35,778	23.630	5,857	17,870	7,878	11,924	286,302
Due to other F. R. Bk's net	9,048				3,254	1.947		23,530			4,617		
Other deposits incld'g For. Government credits		114.025		[illegible]		12	4.351	225	41			2.578	121,482
Total Gross Deposits	116,015	[illegible]	123,466	148.620	73.520	70,064	224.299	100,654	45,312	87,599	54,910	91,878	2,049.906
F. R. Notes in actual circulation	112.533	562,848	147,430	162,918	71.525	56.139	252.639	65,662	55.213	74,396	32,626	125,287	a 1,722,216
F. R. Bank Notes in circulation, net liability						50	2.000			[illegible]		340	10.390
All other Liabilities	[illegible]	6.126	137	1,073	429	47	1.293	706	[illegible]	1.091	349	188	12.629
TOTAL LIABILITIES	235,389	1,545,734	277,972	321,172	152,414	129,385	490,236	170,629	103,963	174,618	90,876	222,141	3,872,133

(a) Total Reserve notes in circulation. 1,722.216.
(b) Difference between net amounts due from and net amounts due to other Federal Reserve Banks, 10,632: Ratio of gold reserves to net deposit and Federal Reserve note liabilities combined 59.9%. Ratio of total reserves to net deposit and Federal Reserve note liabilities combined 61.7%.
(c) Bills discounted and bought; U. S. Government short term securities; municipal warrants, etc.: 1—15 days 749.120; 16 30 days 137,892; 31 60 days 256,050; 61 90 days 102,192; over 90 days 59,619. Total 1,304,872.

DISCOUNT RATES UNCHANGED FROM A MONTH AGO.

THE NATIONAL CITY BANK OF NEW YORK

1918

Economic Conditions
Governmental Finance
United States Securities

NEW YORK, AUGUST, 1918.

The War News.

THE war situation has taken a very satisfactory turn. The anxieties of the Allies have related wholly to this summer's campaign in France, while Germany had an opportunity to use her full strength before the United States troops could enter the fighting line in force. The collapse of the Third German drive makes it very improbable that the enemy will be able to make another effective attack. Meantime, the shipping situation will steadily improve, and the war activities of this country will gain rapidly in effectiveness. Next spring the Allies should be ready for a sustained offensive.

General Business Conditions.

Crop conditions are down a little in some spots from the very high level of a month ago, but considering that one of the most critical months of the season has passed, the outlook, on the whole, is quite as satisfactory as at the beginning of July. The winter wheat crop has been safely harvested, and the weather has been generally favorable to the other grains. Corn is two or three weeks ahead of last year, and the present outlook is perhaps better than ever before at this date in the season. The oats crop has suffered from drought in some places, but will be one of the largest on record. Texas is dry and mainly on this account cotton has lost ground more than any other crop during the month; it is down about 1,000,000 bales in that time. Altogether, however, this still promises to be a great year for agriculture.

General trade is all that could be desired, although held in check in some lines by inability to get goods. Business is in very heavy volume, figures being inflated, of course, by the high prices. The railroads are handling freight in fairly good shape. Interest centers in coal production, which is running a little ahead of last year but not enough to relieve anxiety about the supply next winter. The Government Boards continue to extend their authority over the industries, and the active control of unskilled labor distribution begins August 1st. Wages and prices are still rising, except where the latter are controlled by the Government.

Banking Conditions.

Money is quotably on about the same basis as a month ago, to wit: practically six per cent. in this market for all maturities, with 4¼ per cent. upon acceptances of the first class. The tendency has been for money to work closer all over the country, which is something of a disappointment, as it was hoped that after the June tax-payments, and with the Third Liberty loan payments out of the way, there would be a little respite before the fall demands were felt. This, however, has not been the case. Reports from the interior show that the banks are generally loaned up, and in position where they feel that further demands upon them must be passed up either to the Reserve banks or to city correspondents. The Clearing House banks of New York City on July 27 held loans aggregating $4,381,257,000, as compared with $4,393,554,000 on June 29. The twelve Federal Reserve banks on July 28 held total earning assets of $1,564,540,000, as compared with $1,345,112,000 on June 28, an increase of approximately $220,000,000.

The wheat crop is moving to market rapidly, as under the fixed price the farmers have no inducement to hold it, and this is making a heavy demand for credit. On the other hand there should be soon a corresponding relaxation of pressure in the winter wheat territory, but it has not yet begun to show and doubtless other demands will take up any slack. The distribution of $750,000,000 of Treasury Certificates bi-weekly (only $500.000,000 in last installment) to the banks, raises numerous appeals for assistance, based upon the plea that re-discounting is imperative in order that they may take care of local business. Usually they explain that they are turning down everything but the current requirements of trade, which they assume must be met. This, however, is the very crux of the whole situation. The country is trying to do a greater volume of current business than it has physical facilities for doing. Each individual is trying to maintain and increase his own labor supply and his own stock of materials or goods, and as prices rise he asks for more credit for that purpose. He doesn't realize that his own

efforts are contributing to the rise, but with thousands of employers struggling against each other to accomplish the same end, the net result is a higher level of costs and a steady expansion of credit, while they all continue to wonder how high prices will go! There is literally no limit so long as all can continue to borrow. The amount of credit required to handle the business of the country is said to depend upon the level of prices, but this order has been reversed, so that prices and costs are dependent upon the amount of credit which can be had to finance the competitive struggle over labor and materials.

The whole situation resolves back to the question: How much more of actual services and goods will the Government get in this fiscal year for $24,000,000,000 than it got last year for $12,700,000,000? Evidently it will get more only to the extent that the productive capacity of the country is increased and private economies release productive capacity to the Government. Production is not increased by a mere increase of credits, or by a procession of wage-earners marching from one factory to another in response to the latest bid for their services. The value of the $24,000,000,000, which it is planned to expend, will depend upon the willingness of private consumers to cut down their own demands on the country's man-power. When this is done the demands for credit to handle current trade will fall off, and the plain truth is that it must fall off if the Government's program is to be carried out.

Taxation and Consumption.

Proposals for new taxation do not sufficiently recognize this necessity for greater economy by the whole body of consumers. The uppermost idea is to raise the costs of the war from a comparatively few people and these are attacked from every possible approach. We do not object to higher taxation of profits and personal incomes, but it is important to understand that higher taxation upon these will not materially reduce private consumption, release man-power or increase the total amount of funds available to the Treasury. The effect will be to reduce the amount coming through loans to almost the extent that receipts by taxation increase. Private investments of the kind made by rich people and by business corporations are now under Government control, and surplus earnings and incomes in these classes are either going into investments which the Government has approved as necessary or into the Government loans. The reductions which can be forced in the private expenditures of rich people will not be of great significance, because there are not enough of the rich. The industries of the country are not employed to any important extent in making things for rich people. In order to release any considerable amount of labor and factory space, save any important amount of coal, relieve the congestion upon the railways, or check this expansion of bank credit, there must be a curtailment of expenditures by the main body of the people. The farmers are the largest single class in the country and with farm products at present prices their purchasing power is greater than ever before. The wage-earning class is next, and the same is true of its buying power. In ordinary times it is not good form to comment upon how people spend money which they have honestly acquired, provided they spend it decently, but now every private expenditure comes in conflict with the Government.

Looking To Big Trade.

The middle-west is looking for the biggest trade this fall ever known. An Iowa bank official writing of the work of women on the farms this year says:

> They have done their bit following the binder; they have held the reins from the riding plow; they have manipulated gear-shifts and brake-lever on the tractor. Thousands upon thousands of the boys and young men of the farm have been called to the colors; there has been plenty of work left and but few workers; hence the women in the field, hundreds of them, thousands of them; women who belong to community clubs, who can quote the verse of Allan Seeger, who can pronounce Rheims so even a Frenchman could understand. It is a foregone conclusion that when the harvest has been reaped, these women are going to demand a share of the profits for long-denied luxuries and conveniences. There will be many and many a farm kitchen remodeled and equipped with water-under-pressure systems this coming winter. There will be many a new rug, many a new kitchen cabinet, many a new dress and hat. The peasant woman of the Old world works without hope of luxury; the country woman of the New World is working nowadays in the knowledge that every hour of labor adds to her soon-to-be-realized luxury. The farmer himself is going to be a better spender this winter than ever before. There are going to be larger deposits than ever in the country bank; on the other hand, there are going to be more checks thereon than ever, and they are going to be larger.

This is a pleasant picture. Nobody will be so mean as to dispute that the farmer and his wife and daughter have earned all the nice things they can possibly buy, but where are the labor and materials coming from to make all those things? And after all the farmer and his family have not been working for those things but to help the Government to win the war, and winning the war is a matter of man-power. The Employment Bureau at Washington has just announced that 1,000,000 more workmen are wanted for the war industries, and Congress is about to provide for lowering the draft age to 18 and raising it to perhaps 45.

Almost everybody is acting upon the theory that he must have his own wages or the prices of his products advanced sufficiently to enable him to live on the same scale of personal expenditure as in time of peace, but remembering that the total production of all the manufacturing establishments in the United States in 1914 was valued at $24,000,000.000 and that the Government wants $24,000,000,000 worth supplies and services this year, how can we go on with private consumption as usual?

Is it possible to fix attention upon the relationship between private consumption and labor scarcity in the essential industries, or to ever hear the last of the anxieties of those people who are still fearful that the plea for economy will interfere with business?

Nobody likes to levy taxes upon articles of common consumption, but for the double purpose of obtaining money from new sources and relieving the industrial and banking situation, nothing else will answer so effectively. In the absence of that, the remedy must be found in more effective campaigning for the widespread distribution of Liberty Bonds and War Savings Stamps. The question of whether the Government shall raise money by taxation or loans is not the vital one; the vital thing is to get its work done.

War Savings Stamps.

Cash proceeds of sales of War-Savings and Thrift Stamps have reached the Treasury by months, as follows:

December	$10,236,451
January	24,559,722
February	41,157,744
March	53,967,864
April	60,972,984
May	57,956,640
June	58,250,485
July to the 26th	179,650,702
Total to July 26	$486,752,592

Maturity value, approximately $582,228,350.

The last day reported, July 26, is the largest day yet reported, the receipts being $21,068,-053.33.

The above figures are for actual cash receipts at the Treasury. Including pledges the sales now exceed $1,600,000,000, maturity value, of the $2,000,000 authorized. The stamps have become a very important factor in the war financing.

Federal Reserve System.

The important amendments to the Federal Reserve Act, providing for the exchange of notes for gold, making credits at the reserve banks the only legal reserve of member banks and modifying the terms upon which banks holding state charters might enter and leave the system—all adopted with the purpose of building up the reserves of the reserve banks and of enlarging the membership—went into full effect July 15, 1917. The first consolidated statement under the new reserve requirement was for July 20, 1917, and the following table shows the expansion of the consolidated statement during the past year:

	July 20, 1917	July 19, 1918
Total Gold Holdings, including amount with reserve agents	$1,380,020,000	$1,975,448,000
Total Legal Reserves, including United States notes and silver	1,430,321,000	2,031,095,000
Bills discounted, acceptances and loans	161,386,000	1,378,346,000
United States long-term securities	42,265,000	40,259,000
United States short-term securities	33,050,000	16,358,000
All other earning assets	2,416,000	98,000
Capital paid in	57,723,000	76,383,000
Surplus	......	1,134,000
Government deposits	184,631,000	144,828,000
Members' reserve deposits	1,164,995,000	1,488,047,000
Total gross deposits	1,520,677,000	2,225,268,000
Federal Reserve notes in actual circulation	534,226,000	1,829,045,000
Ratio of gold reserves to net deposits and note liabilities combined	76.3	58.2
Ratio of total reserves to net deposits and note liabilities combined	79.1	59.8

It was calculated, before the transfer of all reserves to the reserve banks, that an addition of $300,000,000 or $350,000,000 to their gold holdings would result, and this has been largely exceeded, the excess coming from gold certificates which had been in circulation. Notwithstanding this gain in reserves it will be seen that the percentage of gold reserve to liabilities for all the reserve banks has fallen from 76.3 to 58.2.

Earnings of the Federal Reserve Banks.

The July number of the Federal Reserve *Bulletin* gives the gross earnings of the Federal Reserve banks for the first six months of the calendar year 1918 as $24,800,000 and current expenses as $4,040,000. All of the banks have now paid dividends in full up to June 30, 1918, and after doing this and providing for depreciation on securities, there is about $17,000,000 to be carried to profit and loss, which is equal to about 25 per cent. on the paid-in capital. For the full year it is probable that the profits above dividends will amount to 50 per cent. Under the law one-half of these earnings are carried to surplus until that amounts to 40 per cent. of the capital, and the remainder is paid into the United States Treasury.

Growth of Membership.

The Federal Reserve banks are having constant accessions to their membership from state banks and trust companies, 39 having joined the system during the month of June. This is good, but not all that may be hoped for. It is difficult to understand why any eligible bank or trust company holds off under existing conditions when the importance of a unified organization is so apparent. It cannot be disputed that the system has contributed enormously to secure stability in the banking business and every bank is a beneficiary in safety and in earnings. This implies an obligation upon each to do its share in supporting the system. The total number of state institutions which had joined to July 1, 1918, was 523, having a total capital of $280,104,900; total surplus, $355,153,565, and total resources of $6,082,911,349.

Profiteering.

Profiteering is something readily denounced but not so easily defined, and all those who discourse upon the subject have not demonstrated their capacity to judge of profits with practical sense and discrimination.

In theory there would seem to be a field for the Federal Trade Commission, in which useful work might be done. Its functions are supposed to be those of a semi-judicial body, with

powers to investigate competitive practices and other business methods and conditions, with a view to procuring for the public an authoritative and reliable account of such affairs, in order that, largely by publicity and partly by legal procedure, fair play and honest dealings may be maintained as the rule in business life, and unfair and dishonest practices suppressed. In view of the magnitude and complexity of business operations in these days, the great powers undoubtedly possessed by corporations of large capital, the dependence of the public upon such corporations for many necessary services, and the suspicion and antagonism often felt toward them, it would seem to be very desirable that there should be an official body having at its command the facilities for investigation, able to make and charged with making an impartial, instructive, informing report upon matters which may be in controversy.

Trade Commission's Value.

Evidently the value of such a body will depend entirely upon the spirit and ability with which it does its work. The public can never be well served except by the truth, and the Commission should serve as a fair, intelligent, well-advised interpreter of business conditions and of sound economic principles. In short, according to our view, such a body will best serve the public by not acting solely as a critic and prosecutor, but rather as an intermediary between the active, energetic but highly useful forces which, while clashing frequently among themselves, are guiding production and development, and, on the other hand, the consuming public, which is the final beneficiary of all industrial progress.

It should certainly understand the fundamental principles upon which business must be conducted in order to prosper, and have a proper appreciation of the fact that development and advancement in industry will bring greater results to the public than a system of drastic regulation which would tend to weaken initiative and stereotype methods. The whole undertaking to supervise and control industry by Governmental authority depends for its success upon the judgment and restraint with which the power is exercised. If the power to control and direct industry is to pass over in any important degree from the individual owners to public authorities it will be necessary that the latter exercise their powers with the same forethought and prudence, the same willingness to forego immediate results for the sake of larger benefits in the future, which characterize every successful individual career. Otherwise the public benefits which accrue from the leadership of men of exceptional ability will be lost, and society will be held down to a dead level of mediocrity without incentive or ambition.

Low Cost Offenders.

The Trade Commission begins its report upon profiteering with the announcement that "the outstanding revelation which accompanies the work of cost-finding is the heavy profit made by the low-cost concern under a governmental fixed price for the whole country," and the report consists mainly of a showing-up of these iniquitous offenders.

That low-cost producers make large profits under prices which permit high-cost concerns to operate is surely not a revelation to business men generally, nor does it seem proper to single out the low-cost producers for criticism. If, as is usually the case, their low costs are due to conditions which they have created, they are not responsible for the fact that prices are high; they have done their part toward lowering them and they show the way to the others. If all producers would do as well, prices would be lower. It is the low-cost producer who is rendering the best service to the public. He is the leader, the explorer, the pathfinder in industry. When he makes mistakes he bears the cost of them alone, and both his mistakes and his discoveries show the way to his less enterprising competitors. Any advantages which he may gain are temporary, because after he has set the example the entire volume of production may be placed on the same basis. Moreover, the public can better afford to pay a given price to a low-cost producer than to one who makes little or no profit. The former, by doing his work with a lower expenditure of labor, releases labor for other work, a consideration quite as important as price. Furthermore, his profits are subject to taxation, and what remain to him at this time are probably invested for the most part in Liberty bonds or employed in increasing the production of things vitally needed. His service to the public is incomparably greater at this critical time than that of the producer who, selling his goods at the same price, makes no profit.

The Public Interest.

Is there any principle of justice which requires a low-cost producer to sell his goods below the open, natural market rate as determined by free competition, or below the rate determined by the authorities as necessary to produce the required supply; or would the public interests be best served by such a rule?

If a farmer by underdraining and fertilizing his land gets 30 bushels of wheat to the acre instead of 15, and thereby reduces the cost per bushel, is he under obligations to sell it for less than the going price, and would there be any public gain from having such a rule established? In the long run, would the public get its wheat at a lower price as the result of such a rule? And, finally, would it be practicable to attempt to regulate the selling price of wheat on the mar-

ket to correspond with the varying costs to different producers, and to follow the regulation through all the transfers of wheat and flour on the way to the consumer? Is it conceivable that differences in the original cost of wheat could be maintained through all handlings, so that bread of the same quality would be sold to consumers at different prices?

The same general conditions apply to other products sold on the market. There is a greater degree of justice in the general rule that the benefits of exceptionally low cost production belong of right to the producer than will be achieved by any attempt to distribute them to the ultimate consumer, and in the long run public interests will be best served by this disposal of them. It is at the point where improvements are achieved that reward and stimulus should be given, and as we have seen, the public has its own gains from every improvement in methods of production, independent of gains within the control of the producer.

If, then, it is the accepted rule that a low-cost producer who supplies only a part of the market is entitled to the general market price—if that is the recognized custom throughout the businessworld—if any other policy is impracticable as a general rule—is it proper to criticise individuals and hold them up to scorn for following this course? Is there anything to be gained for the public by discrediting the low-cost producer, minimizing his services, or taking away from him any share of the rewards which naturally flow to him? Is there any likelihood that others to whom his natural gains might be arbitrarily distributed would make a better use of them, from the standpoint of public interests, than the individual who by the very circumstances of the case is shown to be an industrial leader?

The Packing Industry.

The large meat packers come in for the most severe denunciation. Five concerns who are named are said to "have monopolistic control of the meat industry" and to be "reaching out for like domination in other products, and their manipulations of the market embrace every device that is useful to them, without regard to law." Their profits are said to have "reached astounding figures." "However delicate a definition is given to profiteering," says the Commission, "these packers have preyed upon the public unconscionably."

The Commission report tells nothing about the profits of the meat packing companies that was not known to everybody who reads the printed reports sent to their thousands of stockholders, and summarized in financial columns, but it makes omissions and comments which might mislead a reader unfamiliar with such affairs and without other sources of information. All emphasis is laid upon aggregate profits, but among business men the test of whether business profits are large or small is in their relation to the volume of business handled, the capital employed and the character of service rendered. Judged by these factors the meat packing industry for many years has made a remarkably creditable showing. The Commission does not give figures for gross business or percentage of profit thereon, or state the amount of borrowed capital employed. The latter is a very important factor in the meat industry which is not recognized at all.

An Example.

In the case of Armour & Company the gross volume of business in the Company's latest fiscal year was $575,000,000, with net earnings of $21,293,562. The latter are very large figures indeed, standing alone, but equal only 3.7 per cent. on the turn-over, and the company's report states that the profit on food products was 2.21 per cent.

Armour & Company entered the fiscal year with $100,000,000 of capital and $36,833,117 of surplus. The Commission calculates the profits for 1917 at 16.8 per cent. on "net worth," and the Company report gives them as 14.5 per cent. on average net capital investment. The Commission reports the profits of 1917 as much higher than ordinary, figuring the average of the three years, 1915-1917, at 14.6 per cent. and of the three years, 1912-1914, at 6.2 per cent. In view of the long-standing controversy over packers' profits, the latter figures may be surprising to some people.

There remains, however, the factor of borrowed money, of which the Commission takes no account. It is a familiar fact that the percentage of profit to capital may be notably increased in any business by borrowing money to increase the volume handled, and it is certainly proper that a profit should be obtained upon borrowed capital. The amount of borrowed money in use by Armour & Company at the beginning of the 1917 fiscal year was $77,865,600 and at the close of the year was $133,404,000. These borrowings were necessary to handle the increasing volume of business, and in view of the growth of floating indebtedness the Company has since sold $60,000,000 of debenture bonds on the market, carrying an option to the purchasers of conversion into 7 per cent. preferred stock. Of the borrowed capital $50,000,000 was secured by first mortgage bonds drawing 4½ per cent. interest, and the remainder was in the form of commercial paper, of which the amount outstanding at the beginning of the year was $27,865,600 and at the close of the year $83,404,000. If we take the mean of these two sums as the average for the year, the sum would be $55,634,800.

Capital Actually Employed.

If Armour & Company instead of mortgaging its property and its income to borrow

money had issued at par common stock enough to supply the average of its capital requirements throughout the year, its net earnings would have been greater by the saving of interest, but the amount of capital and surplus would have been $261,761,479. The latter therefore is the actual sum of capital supplied by Armour & Company, counting the floating indebtedness at its average amount, and upon this it was entitled to earn returns. Calculated upon this basis the net earnings of the year were approximately 10 per cent.

These earnings are for a business in perishable products, which constantly fluctuate in value, and include the earnings from multifarious subsidiary branches, including soap, glue and fertilizer works, tanneries, the manufacture of brushes, violin strings, pharmaceutical preparations, and other products from materials which formerly were offal and waste; also include the earnings of car-lines in the transportation not only of beef but fruit, and from icing stations, car-building shops, distribution of other food products, etc., etc., all involving a vast organization and infinite details. The compensation for it all is included in the stated profits.

The Trade Commission is correct, however, in saying that these profits were higher than usual earnings in the packing business. The conditions have been favorable to earnings. Not only has the volume of business been greater than usual, but it has been handled on a rising scale of costs and prices, and business men know that this results in higher profits, just as buying and selling on a declining price-level results in shrinking profits.

Stock Dividends.

The Commission treats the declaration of stock dividends against earned surplus as a subject for criticism, but it does not say that the companies as a rule have kept their dividends low and at times even abstained from dividends for the purpose of building up their surplus accounts. Armour & Company, last year, with earnings over $21,000,000, paid but $2,000,000 in dividends upon the capital investment stated above, and has never divided over $2,000,000 in one year, although ten years ago the aggregate of capital and surplus was $90,000,000. It is strange that details like this should be omitted from a discussion of stock dividends.

Another Example.

The Commission states that the profits of Morris & Co. in 1917 were 263.7 per cent. of the capital stock, although it calculates them at only 18.6 per cent. of the capital and surplus.

Morris & Company has not increased its capital stock since its reorganization from a partnership into a corporation in 1903, although its business has increased largely and it has been adding annually to surplus.

This company at the beginning of its last fiscal year had $3,000,000 of issued stock, and $32,142,000 of surplus. This was the owned capital with which it entered the year, but it was also employing $20,000,000 of borrowed capital and at the close of the year was employing $36,000,000 of borrowed capital. These are the sums upon which it was entitled to make earnings during the year, and the profits actually realized under exceptionally favorable conditions were $5,400,000.

The fact that only $3,000,000 of capital stock has been issued has nothing whatever to do with fair judgment of the profits in the year under review. That the Commission should refer to the $3,000,000 of capital stock is unfortunate, because it is suggestive of bias and of a desire to make a point which the facts do not sustain.

Capital Accumulations From Earnings.

As to the accumulation of capital from earnings it is safe to say that in any community of this country business concerns of large capital can be found which have grown up from small beginnings. It is one of the things of which communities are usually proud, and, indeed, the fact that these concerns have achieved such success instead of being evidence of unconscionable methods is usually accepted as showing that they have played a useful part in the community and enjoyed public favor. Great merchants of New York and other cities who were respected by their fellow-citizens and at death left millions to public objects, began their business careers with their entire stocks of goods on their backs. They accumulated out of earnings the capital which in later years they employed, but if the logic of the Federal Trade Commission is correct, they were never entitled to make in one year more than interest on their original capital. The packing business is no different from other lines of business in the fact that some men have accumulated capital in it while other men have sunk their capital in it.

Regulation of Profits.

Since November 1, 1917, the profits of all meat-packers have been limited by the Food Administration to 2½ per cent. upon sales. The five largest concerns are also placed under special limitations, by which they are forbidden to make over 9 per cent. upon invested capital in their meat business or 15 per cent. upon invested capital in the manufacture of their non-food specialties. In computing profits none of the packers are allowed to include Federal taxes as an expense, and the five big packers are not permitted to charge

interest on any borrowed money as an expense, unless the rate of interest paid is over 5 per cent., in which case the excess above 5 per cent. may be so charged.

Magnitude of the Packing Business.

The amazement expressed in this report over the gross profits of the packing companies indicates unfamiliarity with large business. The members of the Commission apparently are thinking in terms of individual industry. As a matter of fact each of these great concerns instead of representing one organization or industry represents a group of industries. Swift & Company is not a firm of two or three partners running a slaughter-house and meat market in one town, but a corporation of over 22,000 stockholders and 48,000 employes, operating a variety of industries not only in many cities of this country but in other countries, and doing more business than the Pennsylvania, New York Central and Southern Pacific Railway systems combined, with all their subsidiary lines. Swift & Company, however, handle only about one-eighth of the meat business of the country, and the five packers named in this report handle approximately one-third of it.

Independent Packers.

The Commission's report says that it compiled the earnings of 65 of the largest of the independent packers for the years 1914, 1915 and 1916, and found that their profits were as high or slightly higher than those of the big five packers for the same years, which seems to impair the theory that the big five have a monopoly, particularly when it is known that there are hundreds of small packers, scattered over all the states. The truth about the business is that there is nothing to prevent anybody from going into it, or from succeeding in it, except the fact that competition is sharp, the margin of profit very small and competent management is required. The country is dotted with the wrecks of ill-advised ventures, but there are enough successes to show that success is a matter of location and management. The big packers are big mainly because they started in a good location, have been growing for a long time and have had capable management. Their competitors are numerous enough and successful enough to demonstrate that competition can live, and if the big five should attempt to widen the margin on which they do business this competition would rapidly expand.

Unusual Business Conditions.

Business is being done at the present time under great difficulties and uncertainties, and profits are not closely calculated in advance. Many experienced dealers prefer to restrict their operations and some even retire from active business rather than take the chances of loss. About the beginning of each season every banker has anxious inquiries from patrons, asking his opinion as to the probable course of business in the year then opening. Those who have gone ahead in the last several years upon the theory that prices would continue to rise have made money, but they would have paid high for insurance on it at the beginning of each year. The profits of this period cannot be finally calculated until the war and period of readjustment are over. Up to this time fortuitous circumstances have been favorable to profits, but experience has taught that the profits which come under such conditions are needed in the long run to meet the losses which come in the same manner. The favorable turn of a year does not warrant a departure from the usual business methods, nor can ideas which no one adopts in his own affairs save under exceptional conditions, of which he would insist upon being the sole judge, be successfully set up as an official standard of conduct.

Someone has said that it is impossible to indict a whole people, meaning that no law or rule which no one recognizes in his own conduct can possibly be enforced.

When it comes to fixing prices for products or labor below those naturally fixed by the free play of economic forces in an open market, no general rule can be applied; the task obviously is one of great difficulty, and it would seem to be the part of wisdom for an official board which has not been invested with such authority to deal with the subject in a temperate manner.

Federal Reserve Bank Earnings.

Elsewhere we have referred to the fact that the surplus earnings of the twelve Federal Reserve banks, after paying six per cent. dividends, in the first six months of 1918 averaged 25 per cent. of their paid-in capital, and for the full year will exceed 50 per cent. It is true that the surplus earnings of these banks inure eventually to the public Treasury, nevertheless these earnings afford a clear demonstration that exceptional profits may be made in the ordinary course of a large business, as the result of fortuitous conditions and without any intention of "profiteering" or any act of extortion or improper conduct.

Almost everybody is doing what he can just now to promote a spirit of unity and co-operation throughout the country, and ill-considered utterances, under the color of authority, which exaggerate old suspicions and intensify class prejudices are peculiarly inopportune. They are sand in the bearings at a time when the highest efficiency is needed.

Danger of Paternalism.

Moreover, looking forward to the period following the war, if the industrial activities of this country are to be hampered by a narrow paternalism which does not understand the relation between industrial profits and industrial progress, or the relation between industrial progress and social progress, the outlook will be

a gloomy one. There is no way of realizing the hopes and ambitions of the people except by industrial progress, and this is not only stimulated but financed by the industrial savings achieved by the low-cost producers, which are first realized as profits and then used as capital. Without these savings industry will stagnate and society will have nothing to expect but disappointment, confusion and turmoil.

Rural Organization.

It is apparent as the war goes on that victory will rest with the side most thoroughly organized. Mere numbers will be only a burden, if they do not contribute to effective strength. It is not military organization alone which is required, but organization of the entire population. We are called upon for a supreme national effort, with each man, woman and child doing that which is within its power, from tending a garden to fighting in the trenches.

Draft upon draft of men will be made, until 3,000,000, 5,000,000, 7,000,000, possibly 10,000,000 men are withdrawn from the industries, and the more men we send to the front the greater the demands on the industries will be, for equipment, munitions and supplies. A diminishing number of workers in the fields and shops will have to meet these increasing demands, and that is only possible by working more intelligently and with better means and methods.

The first task is to produce food and clothing, not only for the fighting forces, but for the entire population. An efficient agriculture is necessary, as the basis for everything else. The farms are giving up thousands to the army and navy and thousands more to the shipyards and factories, but farm production must not be allowed to fall off.

Here is the greatest field for community effort. Owing to the number of independent proprietors in agriculture, and the small average capital at their command, the efficiency of the average producer as compared with that of the most efficient is probably lower than in any other industry. There is no other field in which organized effort may accomplish equally important results.

Seneca County, Ohio.

Hundreds of counties are being organized for the development of their agricultural resources, but perhaps in none of them has the work been done more thoroughly than in Seneca County, Ohio, as described by a writer in the "Nation's Business," the organ of the United States Chamber of Commerce. The county seat is Tiffin, a town of 13,000 people, which has a live Chamber of Commerce, with a paid Secretary-Manager. This organization set out systematically to increase the food production of that county. It made a farm to farm canvass, covering the county. It checked up the number of acres not being cultivated that were available for cultivation; it ascertained the ability of each farmer with his present equipment and labor supply to cultivate the unused land; it found out precisely what he lacked to enable him to do so. The bankers came into the movement and agreed to furnish credit for machinery, fertilizer and seed. As a result the acreage in cultivation in the county was increased approximately 20 per cent and 235 farm hands were placed by the organization.

The town garden work was taken up in the same thorough manner. The Chamber employed a man to give his entire time to organizing it, and in each town employed a skilled gardener to advise in the cultivation of the crops. The gardens were a great success.

A campaign was carried on for the organization of boys' and girls' clubs for farm work which resulted in the largest acreage under cultivation by boys and girls under club jurisdiction of any county in the state. A club was organized in each township, and the prize of a trip to Washington was offered in each of the sixteen townships of the county.

This was the work done by the Tiffin Chamber of Commerce to stimulate agriculture in 1917. Out of this effort has now developed a larger organization called the Seneca County War Service League, to have charge of all the public activities for the support of the war. It is managed by a Board of Control, consisting of fifteen representative men in the city of Tiffin and fifteen—one from each township—from the county outside.

It is easy to see that work of this kind will greatly increase the productiveness of the County and the efficiency of the people. It is developing the latent resources of the people, as well as the resources of the soil, and there is reason for confidence that when the results are seen the policy will be made permanent.

The Farm Adviser.

The Farm Adviser, or County Agent, as he is otherwise called, is proving a most valuable factor in county organization. He is the necessary connecting link between the educational and experimental agricultural institutions and the farm. He brings the teachings of these institutions into the locality and to the individual farmer, demonstrates them and awakens the interest necessary to secure their adoption in common practice. The work of the County Agent in the fields is supplemented by the work of women demonstrators in the farm homes, teaching canning, preserving, cooking, hygiene, etc. The personal interview in which questions are asked and answered and a friendly interest aroused is far superior to the printed bulletin, upon which in the past reliance has been placed for the circulation of such information. Local farm clubs are excellent, but they need the stimulus of a professional leader.

The County Agent also serves as a connection between the town organizations and the farming population, and it is important that he shall be backed up by a strong county organization, composed as at Tiffin of the representative people, interested in community welfare. In three states, Iowa, Michigan and Alabama, every county now has a County Agent and in 2,920 agricultural counties in the United States there are 2,192 County and Assistant County Agents and 1,056 women demonstrators who go into the farm homes to teach canning, cooking, hygiene, etc.

This is fundamental work. It will not only help win the war but lay the foundation for a permanent prosperity and a better citizenship after the war.

Patriotic Farmers' Fund.

In New York State in the spring of 1917 a group of public-spirited men organized for the purpose of making small temporary loans to farmers to aid them in producing a crop or growing live stock. Mr. William Church Osborn headed the movement and M. W. Cole was made secretary and placed in active charge of the work, with headquarters in Utica. The organization is known as the Patriotic Farmers' Fund, and its activities have furnished convincing evidence of the good that may be accomplished by an intelligent effort to stimulate food production in this state. The State Grange, which has a large number of local bodies in this state, gave its active co-operation, and local bankers have done the same. In each district where loans were made a local advisory committee was formed, by which the loans were passed, and about 1,500 of the local organizations have been formed. These local committees are not asked to guarantee the loans, but by their interested supervision the percentage of loss upon the whole has been negligible.

The maximum loan for crop production was $150, for swine $100 and for sheep $300. The loans to assist the borrowers in getting started in live stock were a second thought, the original plan being to aid crop production only, but much interest has been developed by its campaign to increase the holdings of hogs and sheep. This is work which promises to have far-reaching results. In 1875 there were 6,000,000 sheep in New York state, but that number has dwindled to less than 900,000, although the state is admirably adapted to sheep-growing.

The results of the Patriotic Farmers' Fund movement to date are concretely summed up in the following figures:

Total amount of loans	$625,496
Total number of loans	5,964
Total number of acres planted by aid of loans	78,407
Number of sheep bought by means of loans	2,360
Number of swine bought by means of loans	1,768
Number of banks making loans	238
Number of banks which are accredited agents of the fund, but where accounts are not active	125

Writing of results, Secretary Cole says:

We have distributed the risk of crop failure over a larger territory than one bank could possibly have done. We have acquainted a large number of farmers with the country banks, and have acquainted a large number of country banks with a large number of farmers. We believe we have helped a great many farmers to understand better business methods and have broken down a natural barrier which has existed between the farmer and his friend, the banker.

Helping Farm Boys and Girls.

It is the testimony of all who have been interested in the improvement of farming methods that the best results are obtained by working with the boys and girls, and remarkable reports are made about the response which is forthcoming from that quarter. Mr. E. T. Meredith, of Des Moines, publisher of *Successful Farming*, a farm journal of large circulation, has been offering for the past year to lend money to any boy or girl whose home is on a farm; money to buy a calf, pig, sheep, pen of chickens or pure seed, and has made over 3,000 such loans. The experience of the first year has been so satisfactory as to payments upon these loans and interest stimulated that he is largely extending his operations, and his example has caused many others to adopt the policy within a more limited area.

One of Mr. Meredith's aids, writing of the experiment, says:

Banking and business interests can render no greater service than to back up farm children in every community with loans where needed and with encouragement of every possible kind. We cannot do much with many of the farmers who are set in their ways and will not take up modern methods but the boys and girls will respond readily, and the faith Mr. Meredith has placed in their honesty and integrity has proven to be a wise move from every standpoint.

Bankers in Leadership.

No class of business men are better qualified or more favorably situated to supply leadership in this work of rural organization than the bankers, and in many localities they are doing it. The American Bankers Association, through its Agricultural Commission, is endeavoring to stimulate such action. Mr. Joseph Hirsch, of the Corpus Christi National Bank and Chairman of the Commission, has brought this organization into close relation with the National Food Commission and the Department of Agriculture at Washington. The Commission has an organ of publicity in the Banker-Farmer, published at Champaign, Illinois, where it was established by B. F. Harris, the pioneer in banker-farmer work. This publication reports the activities of bankers throughout the country in agricultural development and the methods by which they are co-operating with the Department and the state agricultural colleges and societies. No one can follow this work without becoming impressed that it is producing valuable results and that its possibilities are very great.

The most effective work is done probably where the bankers of a county organize and plan a campaign or co-operate in a larger organization of business men, but single banks are working very successfully and demonstrating not only that they can help increase production, but that such increased production brings more business to the banks.

The common form of activity by individual banks is by way of promoting the organization of boys' and girls' clubs, usually for growing pigs, cows and sheep. One of the most interesting letters we have had on this subject has been from the Planters Bank and Trust Company, of Hopkinsville, Kentucky, in which the writer says:

"This institution has only recently organized 'The Boys' Heifer Club' consisting of 42 boys selected by seven different committeemen from different parts of this county.

"The heifers, 'short horn,' were bought in St. Louis and were drawn by lot by the boys. They executed their notes bearing 6 per cent interest for the actual cost of the animals with their fathers as surety as evidence of good faith.

"The heifers and calves will be brought to this city in the late fall and sold at public auction at our Fair grounds. We expect to advertise this sale largely and will ask the Agricultural Department at Washington to send out one of its best posted speakers on cattle raising and breeding and we expect to have 3000 or 4000 farmers present at that meeting.

"The day that the heifers were delivered to the boys considerable interest and excitement was created, and a large number of people were in town to see the distribution made. We had the boys' pictures made in front of the bank, and also had a photograph of the cattle, and when they are brought in this fall for sale, we expect to have each boy's photograph taken standing by his heifer, at which time they will be perfectly gentle and in good condition for sale, we hope."

This suggests a new movement in agriculture about Hopkinsville and closer relations between the bankers and farmers in the future.

Society of Savings, Cleveland.

Several banks have gone to the extent of employing a trained agriculturist to represent them in dealing with the farming community, contributing his advice upon farm problems and giving counsel to the bank as to what it may prudently do about granting financial aid. The First National Bank of St. Paul, under the influence of James J. Hill, was one of the first to do this. Among them is the Society of Savings, Cleveland, of which the Hon. Myron Herrick is president. Discussing this policy the bank's representative recently said:

"We know that more capital expended in the development of agriculture is going to better the whole community, both city and country, but it is vital that this money be spent in the right way. Therefore it is the duty of the bank's agricultural agent to study the business of the farmer as a whole and, in conference with him, suggest ways of improvement and in case the moral risk is satisfactory, to offer financial aid to carry out the plans."

Describing the case of a small farmer who had applied for a loan, the account says:

"The analysis of his business showed that while he was doing good work in raising crops, he was doing it all to feed four cows whose total income was only $200 for the year, showing that they would all be classed as 'boarders.' His greatest need was profitable cows and more of them.

"Contrasting these cows with seven Jerseys owned by a Middlefield man which gave him an average of $140 apiece gross income and $100 apiece net income after the cost of feed had been deducted, it can be seen that the four cows owned by the Strongsville farmer should be beefed as soon as possible.

"Therefore Mr. Lincoln told the farmer that a loan would be granted to buy some cows and the bank agent would help purchase them, after the original four had been disposed of. He was urged to keep records on his cows in the future to see whether each cow was paying or not."

The First National Bank of New Haven.

About two years ago Mr. John T. Manson, then president of the Yale National Bank of New Haven, Conn., set to work to make that bank an active agency in the betterment of agricultural conditions in that county. Since then the Yale National has been consolidated with the First National, under the latter name and with Mr. Manson in the presidency, and the agricultural work has been continued. A competent agricultural expert, a graduate of the Massachusetts College of Agriculture, was put in charge. As describing its efforts the following quotation is made from circulars which the bank has been distributing in that locality:

Many farmers have expressed a desire to acquire better live stock. As a result of this interest, a trip was recently taken into central New York State for the purpose of investigating the live stock industry. It was found that both grade Holsteins and Registered Holsteins can be secured, every animal guaranteed to produce at least 10,000 pounds of milk per year. This dealer has shipped several hundred cows into Massachusetts, and a few carloads into this State, and they have proven satisfactory.

In this connection it is interesting to note the recent report from the Connecticut survey on the cost of market milk production. This report shows that cost of milk per quart on those farms where the herds were producing 4500 pounds or less, per cow, was .0672 cents; where the herds averaged between 4500-5500 the cost was .0594 cents; where between 5500-6500 it was .0562 cents; when between 6500-7500 it was .0542 cents and *when over 7500 pounds per cow, the cost per quart was reduced to .0466 cents.*

The present high prices of grain are causing the dairymen to realize as never before the necessity of keeping high producing stock. The average production of milk per cow in New Haven county is estimated at 4500 pounds, while individual herds are averaging more than twice this amount. This means the difference between profit and loss as there is very little extra expense in the care for the better stock. We stand in a position to help farmers, financially or otherwise, to secure some of this better grade of stock.

In response to our request for a summarized statement of its plan and efforts, the bank has outlined its work of the past year as follows:

Our aim is to assist such farmers as are in need of financial aid for the purchase of farm machinery, better live stock, seeds, fertilizer, etc., making the terms of payment such that they can be easily met.

Boys and girls have been organized into the various Agricultural Clubs and we are financing their undertakings. Liberal prizes have been given as a further stimulus to increase effort. This assistance, financial and otherwise, is aiding in the development of many of the farms along lines which should bring more profit to their owners and in time will mean larger bank balances.

We assisted in the organization of a Community Swine Breeders' Association in one of our towns and purchased 16 registered Berkshire for their foundation stock.

We personally selected, brought into the State, and distributed over 1300 bushels of seed potatoes this season.

20 head of Holstein stock were purchased in New York State last fall and distributed among farmers here who wished to make a start in building up a higher producing herd.

Last season over 200 small pigs were distributed among boys and girls in our contest, and this year over 300 have been distributed.

Last winter 100 boys and girls living in the city of New Haven were financed and supplied with flocks of 6 pure-bred pullets each.

56 Grade Shropshire Lambs have been distributed to boys and girls during the past month.

Many farm loans have been made to deserving farmers, to enable them to produce more food.

We believe that as a result of this work, a feeling is gradually growing up in the community which is going to rebound financially to the credit of our institution during the coming years.

If work of this character was being done in every agricultural county of the United States how great would be the results for the general welfare!

Competition for Bankers.

Ex-Governor Myron T. Herrick in a recent address has uttered a noteworthy warning to bankers concerning the new competition which may be expected from governmental agencies and co-operative institutions fostered by the government, in receiving deposits and making loans. He named the postal savings system, now holding $137,000,000 of deposits, as the first of these competitors. The postal savings deposits are obtained mostly in the cities, and thus far have been re-deposited with the local banks or converted into government bonds, but measures are constant-

ly pending to authorize other disposition of them. The original limitations upon deposits already have been considerably modified.

Attention is directed to the provision of the Farm Loan act which authorizes the Farm Loan Associations to receive deposits and pay 4 per cent interest on them, and the Governor expressed the opinion that the Farm Loan banks will develop into savings banks, with the associations as branches for collecting funds. He gave his idea of the way to meet such competition as follows:

"By becoming more attentive, efficient and effective in local service, an increase in deposits would come as a matter of course. So there is but one big task before us, divided though it may be into two different branches. Can we be more serviceable to the farmers, to the wage-earner and to foreign immigrants so numerous in the larger cities? Can we inculcate the principles of frugality and thrift more deeply and more generally in the old as well as in the young among men and women, and also in children?

"Can we encourage more extensively the habit of saving among the classes that ordinarily come to our doors, and give them more acceptable advice above the judicious and economic use of savings? Can we give more help to the workman, the clerk, the small salaried man or woman seeking to acquire a home, or to open up a business, or to undertake some good enterprise? And, finally, can the funds in our possession be used so as to be of greater benefit to the communities of their source?"

The agitation for governmental facilities for lending credit to the farmers has been successful to the extent of providing mortgage loans through the Federal Land Banks, but it will not stop there. Various propositions are in course of development for providing short time credit to farmers, and a bill to that purpose is now pending for the organization of mutual associations, affiliated with the Federal Farm Loan system. It is poor policy to meet the numerous proposals for granting governmental aid to farmers, and for organizing the farmers politically, simply with criticism and hostility. The fact is that a great deal can be done to help them by community organization, but it can be done better without governmental action if intelligent leadership is supplied. The best way to head off the spasmodic and ill-advised political movements which are based upon class antagonisms is by creating such mutually helpful relations throughout the business community that class appeals will meet with little response.

Obituary.

John W. Sterling, surviving member of the original law firm of Shearman & Sterling, one of the leading lawyers of New York, and for many years law counsel to this Bank and a member of its Board of Directors, died suddenly on July 5th at the fishing lodge of Lord Mount Stephen, in Canada. He was 74 years of age, but had been in active attendance upon his numerous responsibilities up to his departure on the vacation trip upon which he died. Mr. Sterling's notable career is briefly sketched in the following resolutions, which have been adopted by the Board of Directors of this Bank:

Whereas, our associate, John William Sterling, a member of this Board since 1898, and counsel for this Bank since 1891, has departed this life, after a long, active and distinguished career, and,

Whereas, we have been profoundly impressed by the unusual traits of mind and character manifested in his life and labors, and are deeply appreciative of the great ability, constant fidelity and unremitting personal devotion with which he discharged every duty and trust committed to his care, therefore be it

RESOLVED, that in memory of our association with him and in recognition of his services to this institution, the following sketch and appreciation of his life be incorporated in the permanent records of this body:

John William Sterling, born at Stratford, Fairfield County, Connecticut in 1844, came of sturdy New England stock, his earliest American ancestor emigrating from England to Massachusetts in 1651. His father, whose name he inherited, was a sea captain of that period when American shipping led the carrying trade of the world. Mr. Sterling was graduated from Yale with high honors in 1864, and from the Columbia Law School of New York City in 1867, delivering the valedictory address. Upon admission to the bar he entered the law office of David Dudley Field, one of the great figures of the American Bar. His brilliant promise at this time is attested by the fact that in 1868 he was taken into the newly formed partnership of Mr. Field and Thomas G. Shearman. In 1873 Mr. Field retired and the firm became Shearman & Sterling, and it was characteristic of Mr. Sterling's friendship and instinct of fidelity that he would have no change in the name after Mr. Shearman's death, which occurred in 1900. He said that there would be no change in the name so long as he, himself, survived, and there was none.

The firm was attorney and counsel to many of the large interests centering at New York, and participated in much important corporate litigation and in many railroad reorganizations. Mr. Sterling had a genius for indefatigable industry which made him a master of the details in every situation, and the same characteristic together with intuitive perceptions made him a master of the law. His mind was constructive and original, and at the same time conservative; he had executive ability of a high order, and a keen insight and sagacity, which with his sturdy qualities of character made him the trusted adviser of many men of large affairs.

He was a great lawyer who never appeared in court, but he knew thoroughly all of the affairs confided to his care. He was naturally reticent and retiring in habits, but his friendships endured for a life time. He was firm, strong, upright and wise. His proficiency in law was based upon his instinctive love of equity and the right. Men trusted implicitly to his judgement, his counsel and his fidelity, and his life was devoted faithfully and consistently to the discharge of those obligations.

The Bank has been fortunate in having him not only as its legal adviser, but also as a member of its Board. He has given to its affairs the alert and conscientious attention which he bestowed wherever he accepted responsibility, and the official staff join us in deploring his death and offering this tribute to his memory.

As a result of his unusual business career Mr. Sterling left a large estate and after important bequests to relatives and friends and gifts to charities in which he had been immediately interested, he gave the residue, which will realize fully $15,000,000, to his Alma Mater, Yale University, for which he had always cherished the most loyal affection. The next largest bequest was to the Miriam Osborne Home for indigent gentlewomen, located in Westchester county, New York. This Home was founded by Mrs. Miriam Osborn, widow of Charles J. Osborn, one of Mr. Sterling's most intimate friends. Under Mrs. Osborn's will it fell to Mr. Sterling to carry out her design of establishing the Home, and he not only did so to the extent of carrying out her instructions, but before his death had given $500,000 of his own money to the project and by his will gives as much more.

Mr. Sterling was an exceptionally able business man, and his life was devoted to constructive work, the benefits of which were widely distributed, because it was work for continental development and national up-building. He acquired a large fortune, but his expenditures upon himself were few, he worked hard and faithfully, and at the end his fortune has practically all gone to public benevolences and to enlarge the usefulness of a great American institution of learning.

1918

Economic Conditions
Governmental Finance
United States Securities

NEW YORK, SEPTEMBER, 1918.

Responsibility for the War.

IT is not the usual thing to take notice of anonymous communications, but although the individual author may be unknown, such letters are sometimes evidently representative of a group, and where there is reason to believe that this is the case the absence or presence of an individual signature is not the important thing. In the July number of this publication was reprinted an important statement by Mr. Morganthau, who in 1914 was the United States Ambassador to the Turkish Government, confirming by the testimony of Baron Wagenheim, the German Ambassador to Turkey, a statement by Prince Lichnowsky and others to the effect that the war policy of Germany and Austria-Hungary was determined upon at a conference held in Potsdam on July 5, 1914. In view of the plea that Germany is fighting a defensive war, it was interesting to have the accumulations of proof, that while all the rest of the world was going peacefully about its usual pursuits, the high powers of Germany and Austria-Hungary were conferring about the demands to be made upon Servia and fully contemplating the probability that those demands would result in a general European war.

A copy of the page carrying the Morganthau statement and a reference to the Lichnowsky statement has been returned to us, with the following comment pencilled thereon:

> "This is beside the question; these statements from two discredited officials. The war became inevitable when the Morocco crisis showed that there was a conspiracy to humiliate Germany. There would have been war then if Germany had been ready financially. She waited her time and did not wait until it suited the Entente."

The writer of this is apparently sensitive under the charge of duplicity in so far as it relates to the July 5th conference, and yet he naively admits and justifies the policy of duplicity.

The Morocco Crisis.

The last Moroccan crisis occurred in 1911. In 1905 Germany had objected to the extension of French influence in Morocco, and at its instance an international conference upon the subject was held at Algerciras, in which thirteen nations, the United States among them, participated. Germany did not get all she wanted from this conference; only Austria-Hungary and Morocco sided with her. The conference, however, agreed upon a reaffirmation of the independence of the Sultan and that an open door should be maintained to all trade. In 1911 Germany protested that France was not observing the terms of the agreement and sent a warship into the harbor of Agadir. There was much war talk, and Lloyd-George made a speech at the Lord Mayor's banquet, in which he was understood to give notice that England would not stand by and see France attacked. The Kaiser was said to have called a conference of bankers and industrial leaders and asked them if they were ready for war, to which inquiry a negative reply was given. Large sums loaned in Germany by French bankers were recalled, creating a sharp crisis, which was alleviated by German loans in New York. The Kaiser was said to have told the German bankers that next time he asked that question he wanted a different answer.

The German Grievance.

It is unnecessary to go into the particulars of the German grievance. If the terms of the conference agreement were violated the matter concerned all of the thirteen powers, who were parties to the agreement, but the other powers displayed no interest and the differences between Germany and France were adjusted by themselves.

Doubtless our correspondent is well informed in saying that Germany felt aggrieved over the Morocco affair, and that war would have occurred then if she had been financially ready, for Von Jagow, formerly Secretary for Foreign Affairs, in his reply to Prince Lichnowsky, said:

> Our Morocco policy had led to a political defeat. Happily this had been avoided in the Bosnian crisis, and at the London Conference. A fresh diminution of our prestige was intolerable for our position in Europe and in the world. The prosperity of States, and their political and economic successes, depend upon the prestige which they enjoy in the world.

This quotation of itself shows the dominating spirit of the German Government. Its pride was offended when all of the powers in the Morocco conference except Austria-Hungary and Morocco sided against it and with France, but, this alignment did not constitute a conspiracy against

either the dignity or security of Germany. There was nothing at issue in the Morocco situation which involved the vital interests of Germany or justified war.

Germany accepted a settlement, but "bided her time." The war in the Balkans broke out, and the European situation became exceedingly tense; the great powers were in almost continual conference for the avowed purpose of averting a general war, but Germany "bided her time." She sent Prince Lichnowsky in 1912 as her Ambassador to London and kept him there until the war broke out in August, 1914. If he was not the trusted representative of the German Government it was an act of perfidy to keep him there. He says that throughout his term of service the British Government labored constantly to maintain the peace of Europe and to satisfy the wishes of the German Government in all matters pending between the two governments. Von Jagow has virtually confirmed Lichnowsky's statements, admitting that in the most important question of all, the matter of the Bagdad railway, "we found the English Government ready to meet us," and that he believed in "Sir Edward Grey's serious wish to reach an agreement with us."

German Prosperity.

Meantime German trade was spreading without hindrance the world over. German traders and financiers, backed by the government and by offensive governmental policies practiced nowhere else, were penetrating and establishing themselves without opposition in all of the countries now said to have been in the "conspiracy" against Germany. England and the British colonies were an open field to them. They were as free to operate in London as in Berlin. They had the metal production of the British Empire so completely tied up in relations with German smelters that for more than a year after the outbreak of the war Great Britain could not get the use of the immense Australian lead production, and was dependent for her munition supply upon the production of the United States. The great textile industry of England was dependent on Germany for dyes, a fact of very great significance because the dye industry is intimately related to the manufacture of high explosives, which England had to develop from insignificant proportions after the war broke out. If the idea that neutrality forbade the United States to export war materials to a belligerent had prevailed Germany would have won the war in the first year because she was prepared, while her antagonists, and especially England, were not.

The seas and ports of the world were as free to German ships as to any ships in the world, and German shipping and German trade were growing faster than any other. Her trade opportunities in the great territories of Russia were superior to those of any rival, the Bagdad railway and the sweeping concessions which were carried by the Bagdad contract with the Turkish government, to which England had assented, were establishing her in a dominant position in western Asia, and she had a great colonial empire in Africa, besides her possessions in the Pacific and a foothold in China.

Nevertheless, as the world knows now, Germany was dissatisfied, and amid all of these negotiations and all of this unhindered development and prosperity, was only "biding her time." England ceded Heligoland, an island which in the hands of an enemy would be a grave menace to the German North Sea ports, as a token of friendly disposition; Germany and Austria-Hungary were allowed their own way with Bosnia and Herzegovina, but Germany did not have quite her own way in Morocco. There she considered her prestige impaired. She was affronted. The Morocco case furnished, she assumed, evidence of a conspiracy against her, and there was nothing to do but settle the question of supremacy at the earliest favorable opportunity.

Minority Opinion in Germany.

Of course we do not say or believe that all Germans have sympathized with the military party which has made the policies of the nation. No doubt there has been a minority element which has disapproved of the course pursued, but apparently its influence has been small. Germany lost heavily of independent spirits in 1848, and the government has controlled the universities and other sources from which, in other countries, liberal leadership is commonly expected. It is possible however to read between the lines of a recent editorial in the Berliner Tageblatt, edited by a recognized liberal, Theodore Wolff, and see that all is not perfectly harmonious there. He says in part:

> One ought not perhaps at present to discuss who has helped to prolong the war. But, as that has become the fashion, one cannot refrain from establishing the real facts. The principal contributors to the prolongation of the war have been those who contemplated America's declaration of war "with satisfaction" and "with relief," the people who filled Germany with a noisy agitation such as there has never been before, and shouted at their credulous public prophecies of which not a single one had been fulfilled. Doubtless it is the politicians, journalists, and agitators who started this dance that have co-operated most thoroughly in the prolongation of the war. The same politicians, journalists, and agitators, relying upon the general shortness of memory, are now again anxious to educate the people with their pomp and their noise.
>
> When one reads over now their former writings and speeches, their proclamations, and promises one finds a strange assembly of people who never can be cured of their short sight. A book composed of nothing but such quotations would be attractive and instructive.

The same editorial characterizes the Brest-Litovsk treaty as "an extremely unhappy document." The truth seems to be that Germany had gained so much since the war with France in 1870 in position, prestige and wealth that the great body of the people were content to let the dominant military party, which had these achievements to its credit, continue to have its own way.

By this time even the Pan-Germans must be thinking that Germany was getting along in

quite a satisfactory manner while "biding her time." Nobody was preparing to attack her, or even thinking about attacking her, but by the activities of her own government she has procured declarations of war against herself from twenty-two governments, and every day sees a deepening of the world feeling of hostility. This is the outcome of having "bided her time," and picked a time which she thought was favorable. It is to be hoped that the lesson to all nations will be a lasting one.

The Financial Situation.

In normal times the fall demand for money is just getting into full swing on September 1st, but this year the seasonal requirements have come earlier, as a result of the early movement of the great wheat crop and the general inclination to be forehanded in replenishing stocks. The demand for the industries has been increasing through the summer, and money would be very tight if the supply was restricted to the old-time facilities, but with the spillway for demand into the reserve banks the pressure is scarcely noticeable to the public. Accommodations are obtainable for all approved purposes and interest rates are kept at a level which is artificially low, considered in relation to the demand for money, the general level of prices and the other conditions. The supply of "money" is increased to meet the demands by means of the credit machinery which has been provided.

We see no reason to expect that the demands will fall off or that the credit machinery will fail to take care of the new demands. As a result of the rapid movement of the wheat crop the sections in which it was produced will liquidate indebtedness and have some free capital, but the wheat will have to be carried somewhere until it is eaten, and the cotton crop is coming to market at the highest price level on record.

Moving Cotton.

Numerous conferences have been held and a voluminous discussion has been going on relative to marketing the cotton crop. The acceptance has been urged as a credit instrument well adapted to the cotton trade, but admirable as it is the acceptance cannot do everything alone. There should be public warehouse facilities to go with it, and while the South has been making good progress in this respect in the last four years, present storage capacity over and above what is occupied by the carry-over will not go very far in accommodating the new crop. Moreover, current prices for cotton are very high as compared with normal prices. Cotton may be worth 35 cents per pound, having regard for the demand there will be for it after the war; it may be good policy for the producer, or anyone who has the capital to spare, to carry it to realize on at that time, but that is a prospective situation, and a lender who has nothing in it but an interest charge at 4½ to 6 per cent. per annum will hardly care to lend on 35 cent cotton with an ordinary margin. Therefore, in order to distribute acceptances on a large scale, somebody must first buy the cotton and make a down payment of an amount in excess of the usual margin. This feature would be remedied if the price was stabilized by the Government as in the case of wheat, and there are advocates of this policy, but the fixing of an official price in view of all existing circumstances would be a very perplexing task.

In any event, it will require a great deal of credit to take the cotton crop out of first hands, and there is not much bank credit to spare in any part of the country, even for prime acceptances. Treasury certificates have the first call on all the lending capacity of the banks above what they feel obligated to reserve to their home customers. For this reason, it may be questioned whether a large distribution of cotton acceptances is practicable this year even with public warehouses provided. The argument for the acceptance is that it is an exceptionally mobile form of credit, which will flow into all the vacant spaces in the banking system, but when there are no vacant spaces the acceptance has no magic powers.

The fact is that the cotton crop requires less credit in farmers' hands than anywhere else, and while we grant that it is desirable to have an ample supply of credit to handle the business of the country in its natural movements, there are grave objections at this time to multiplying the floating volume of credits unnecessarily. All such credits are purchasing power and contribute to a general state of inflation, the effect of which is to raise wages and prices higher and higher. Agriculture is the one great industry in which the year's production is largely available for sale at one time, and if the entire agricultural output of this country was converted within a few weeks, at present prices, into cash, the situation, already over-stimulated, would be still more congested.

Limitations Upon Use of Credit.

It must not be thought that the Federal Reserve system and the War Finance Corporation, or any other agencies that may be devised for creating credit—or any additions to the gold reserves—will enable us to go on multiplying credits indefinitely without ill results. Bank credit, like paper money, is a facility which within limitations is useful in promoting production, but neither paper money nor bank credit can be used except to put the physical agencies of production into effective use. If the industrial equipment of a country is not working to full capacity; if land is going untilled for lack of labor while labor is without employment; if cattle are dying in one section for want of feed, or being forced upon the market in unfit condition, while in another locality there is feed for

sale in abundance; or wherever production may be increased by the use of agencies now idle, then credit may be profitably employed. But when all the physical agencies of production are already in full use the attempt to use more money or credit spends itself in driving up wages and prices.

Precisely that situation exists today. We say that high costs and high prices make it necessary to use more credit, but it is equally true that the expansion of credit facilitates the competition for labor and material which makes high costs and prices. It is the struggle among all the industries and all of the employers for workers and materials that puts up wages and prices. It is stated that "friendly representations" have been made by the skilled shipbuilding trades for an advance of wages to $1.00 per hour, with double-time after eight hours on "week days" and four hours on Saturdays, and 10 per cent. extra for the night shifts. It is claimed that the cost of living has gone up since the present wage-rate was established. Wages were made high in the shipyards originally for the purpose of attracting labor from other industries, and the other industries then raised wages in self defense. As wages go up in the war industries the consumption demand on the peace industries increases and the struggle for labor intensifies.

The Bureau of Statistics and Information of the New York State Department of Labor reports the average per capita weekly wages in New York State in June, 1918, at $20.44 against an average of $16.38 per week in 1917, $14.43 in 1916, and $12.85 in 1915.

Most of the industries are now short of labor to work all of their equipment, and under this condition the temptation to draw labor from other employments is very strong. Costs in the textile industries are higher than last year, but not so many yards of cloth will be made this year as last. Costs are higher in the steel and iron industry but production this year will be little if any greater than last. The industries are chasing themselves around a circle, stimulated and supported by credit and constantly getting farther from normal conditions, to which eventually they will have to return.

The increasing costs are inflating the national debt, which will have to be carried upon the basis of peace conditions, when it will take twice as much in labor and commodities to pay a dollar of debt as the Government receives now. Moreover, the people who individually get into debt on this basis, and who fail to clean up promptly may find themselves after the war facing the problem of meeting their obligations at the same two to one ratio.

The Rise of Loans.

We gave a statement last month showing that the loans, acceptances and bills discounted on hand in the twelve Federal reserve banks increased from $161,386,000 from July 20, 1917, to $1,378,346,000 on July 19, 1918. We now have to report that at the date of the last consolidated statement, August 23, they stood at $1,630,321,000. The increase, $1,468,935,000, represents loans passed up by the member banks of the system, and the loans on hand of national banks also increased from June 20, 1917, to June 29, 1918, in the sum of $808,000,000, not including Treasury certificates. Their holdings of bonds, Treasury certificates, etc., showed a net increase in the same time of $938,000,000, making a total increase in reserve banks and national banks of over $3,000,000,000. Figures for State banks and trust companies are not available.

On August 16 member banks reporting to the Federal reserve board held loans and investments other than Government securities or loans on same, amounting to $10,722,771,000 as against $10,004,162,000 on May 31, last. This is a rapid increase, and it is common knowledge that the member banks and state institutions outside of the reserve system are generally loaned up close, so that further additions to their holdings will have to be passed on, directly or indirectly, to the reserve banks.

The increase in loans since a year ago has much more than taken up the additional lending power which was created by the amendments to the reserve act lowering the reserve requirements of the member banks and by transferring gold and lawful money to the reserve banks. On August 22, 1917, the consolidated statement of the reserve banks showed a lawful reserve against demand liabilities of 82.6 per cent., and on August 23, 1918, of 56.7 per cent. Reserve percentages for the national banks no longer have any significance, as reserves are replenished at the reserve banks.

It is true that the present reserve is high, compared with the existing reserves of England, Germany and France, and with ordinary banking practice, but the countries named have been at war nearly three years longer than the United States, and it is well to consider where we will be even one year from now. Furthermore, the matter of chief concern is not the mere lowering of the reserve percentage toward what may be considered the danger point, but the influence already being exerted by these swelling bank credits upon the industrial situation.

One Billion of New Bank Credits in Three Months.

The increase of $383,000.000 in the loans of the reserve banks and $718,000,000 in the loans of member banks (the latter not including any Government financing) since June 1st, means that one billion dollars of new credit has been put into circulation in less than three months to do the work of money. This credit is new

purchasing power which will remain as a stimulating element in the industrial situation until it is retired by a corresponding reduction of bank loans. It is checked from one bank to another, performing the function of money, for each individual's credit in his bank account is to him the same as money.

The foregoing is descriptive rather than critical, for the individual banker hardly can be expected to take the responsibility of curtailing credit to his customers who are wanting it for apparently necessary purposes. The banker feels that he is rendering a patriotic service, but this multiplication of credit for all competitors instead of getting larger results simply determines who at last shall have the limited supply of labor and materials. The country is trying to use credit in excess of the physical capacity of its industries and some way must be found to hold this tendency in check other than by a general appeal to bankers to restrict loans to essential purposes. There is no end to the inflation that may take place for essential purposes if this competition for labor and materials goes on. The remedy must be found in more direct and effective control of the industrial situation.

Fourth Liberty Loan.

Thus far $2,759,541,500 of 4½ per cent. Treasury certificates have been sold in anticipation of the Fourth Liberty Loan, and the books will close September 3 on another offering of $500,000,000. The Secretary of the Treasury has also placed on sale a new issue of certificates, bearing 4 per cent. interest which will be accepted in payment for income and profits taxes. No limit has been named upon this issue. The certificates will be issued in denominations of $500, $1,000, $5,000, $10,000 and $100,000. Principal and interest will be exempt from all taxes except inheritance, income surtaxes and profits taxes.

The Fourth Liberty Loan will be opened on September 28. The amount has not been announced, but is expected to be $5,000,000,000 or $6,000,000,000. The rate will be 4¼ per cent. In view of the loaned-up condition of the member banks it now seems probable that there will be more re-discounting than for the other loans. Furthermore, inasmuch as business profits and personal incomes will be taxed for this year approximately twice as much as last year, reservations for this purpose are now being made, and presumably bond subscriptions from these sources will be reduced.

Broad Distribution Necessary.

In view of the situation the success of this loan seems to depend in larger degree than with either of the others upon wide distribution. There is good reason to believe that a greater number of small and moderate-sized subscriptions will be readily forthcoming. The result of the third campaign showed that where the country was thoroughly organized splendid results were obtained. This time the organization will be improved and the public will be still more interested and receptive. The splendid work that our troops are doing will give enthusiasm to the campaign. It must be borne in mind, however, that thorough, careful organization in every part of the country is absolutely necessary to raising five or six billions of dollars. The sense of personal responsibility must be felt by each individual, and he must understand that it is even more important now than heretofore that his subscription shall be met out of income and not by borrowing. Temporary borrowing is approved and the Treasury will arrange payment by installments, but the point should be clearly emphasized that in subscribing for bonds the subscriber is expected to actually turn over purchasing power to the Government and not seek to also use the purchasing power himself. When a person subscribes for bonds, and meets the subscriptions simply by borrowing, he fails to carry out his implied pledge to assist the Government to obtain war materials. He is giving an order for goods and reserving the right to use them himself.

Closer Economy Required.

The country does not even yet understand the vital relation which personal economy bears to the nation's effort in the war. The people are willing to do anything except reduce their personal expenditures. They will give their sons, brothers and husbands to the battle line, but do not see that in order to support them there with the full man-power of the nation, labor must be saved and released from its ordinary pursuits. The limiting factor in our efforts is man-power. We must save labor, save coal, save power, save shop-room, save railway capacity, at every possible turn, and as we do this we will find ourselves in funds to buy the bonds and stamps.

The Secretary of War has said that there are two alternative policies which may be adopted for the conduct of the war. One is to recruit our armies rapidly and throw an overwhelming body of troops upon the enemy within the coming year, forcing the war to an early termination; the other is to recruit the armies more slowly and protract the war. The Government is adopting the former policy, believing that it is more certain to bring victory, and that the cost in human sacrifice will be less than by a war running on for years. Public opinion approves of this decision, but does the public understand the changes which it requires in industry? These millions of men who are taken for the armies and the war industries have been employed in making things

for the market or in serving the public in one capacity or another. Their removal from these employments means that the supply of goods and services will be reduced and hence that consumption must be reduced. The problem is not primarily a matter of raising money for the treasury; it is chiefly a matter of releasing labor from supplying private wants, to supply the Government's wants. Obviously if this relief is to be obtained upon a great scale, the whole body of the people must participate, for they are the real employers.

We hear on every hand the argument offered, and usually accepted without controversy, that the wage earners or producers of a given class must have their wages or prices advanced sufficiently to keep them whole against the cost of all they have to buy. The logic of this is that every one shall have during the war everything that he had before, which, as we see, is physically impossible. It is inconsistent with the other work we have to do, that we should try to produce as much for private consumption as in times of peace.

The high and rising prices signify that we are persistently trying to do it. Every industry is striving to supply the private demands upon it, and reaching out for labor, coal, freight cars and materials which the Government industries need, and doing so in obedience to our private demands, expressed in our purchases.

Taxation and Bonds.

The administration's money-raising problem for this fiscal year contemplates practically doubling the receipts from both taxation and loans; that is to say, it proposes to raise approximately $8,000,000,000 by taxation and $16,000,000,000 by loans, as against nearly $4,000,000,000 by taxation and $8,000,000,000 by loans last year. The new revenue bill reported by the House Committee will probably bring in the $8,000,000,000 by taxation; that is comparatively easy with a first chance at the income of the nation; the important question is in what shape does it leave the field for the raising of the $16,000,000,000 of loans.

The bill is planned to obtain the bulk of the new revenue from business profits and the larger personal incomes, and it is obvious that this is levying upon the sources from which bond subscriptions have largely come in the past. We shall not argue over the advantage or propriety of making the rich pay by taxation instead of by loans; that is the point upon which some persons lay the chief emphasis, but to our view the point of chief importance is the necessity for raising $24,000,000,000 in all, against a little over $12,000,000,000 last year. It is evidently necessary to tap new sources of Treasury income, and this is where the new bill is weak. The surplus profits of business and the surplus incomes of the rich after the payment of taxes, have been going into the bonds, and will now be diverted largely to the other channel. This will save interest, but does not give the Treasury more money for this year's use. The so-called luxury taxes, and most of the other taxes are directed at the same pocket-books. The levy of taxation is not broad enough to produce important revenues from new sources, and if the bill becomes a law in this form the undertaking to raise $24,000,000,000 in the year will depend for success upon a great increase of bond subscriptions from people who are practically exempt from taxation.

The policy of the bill reflects the fallacy that the incomes of the rich if converted to public uses will solve all problems. The trouble with this idea is that the incomes of the rich in the main are already applied to public uses; in normal times they go back into industry and at this time they are largely needed there. If all the money which the rich spend on themselves was turned into the Treasury, and all of the man-power which the rich employ for their own private support and pleasure was released to the Government, the results would be insignificant compared with the Government's needs at this time.

The levy of a few consumption taxes of broad application would bring in a large amount of new money, and so far as it served to enforce economy and restrict consumption would also serve to relieve the congestion in the industrial situation.

Centralized Powers Under Federal Reserve System.

The July number of the Federal Reserve *Bulletin* says that three times during the month of June the Board exercised its authority to require certain of the reserve banks to take over short-time paper from the others, thus, as it says, "equalizing resources." From January 1 to June 30, this year, such operations were as follows:

(In thousands of dollars.)

Rediscounted or sold by the Federal Reserve Bank of—	Discounted bills rediscounted	Acceptances sold	Total.
Boston	.....	18,936	18,936
New York	.....	75,816	75,816
Richmond	21,028	32,830	53,858
Kansas City	8,530	.....	8,530
Dallas	5,003	2,995	7,998
Total	**34,561**	**130,577**	**165,138**

Penalizing Efficiency.

No one has stated the fundamental difference between the taxation of war profits and the graduated taxation of profits upon invested capital more clearly or concisely than Secretary McAdoo has done in one of his communications to the House Committee on Ways and Means. We quote as follows:

The distinction between a war profits tax and the excess profits tax is not a matter of form, but of substance. By a war profits tax we mean a tax upon profits in excess of those realized before the war. By an excess profits tax we mean a tax upon profits in excess of a given return upon capital. The theory of a war

profits tax is to tax profits due to the war. The theory of an excess profits tax is to tax profits over and above a given return on capital.

A war profits tax finds its sanction in the conviction of all patriotic men, of whatever economic or political school, that no one should profit largely by the war. The excess profits tax must rest upon the wholly indefensible notion that *it is a function of taxation to bring all profits down to one level with relation to the amount of capital invested, and to deprive industry, foresight, and sagacity of their fruits.* The excess profits tax exempts capital and *burdens brains, ability, and energy.* The excess profits tax falls less heavily on big business than on small business, because big business is generally overcapitalized and small businesses are often under-capitalized.

The war profits tax would tax all war profits at one high rate; the excess profits tax does, and for safety must, tax all excess profits at lower and graduated rates. Any graduated tax upon corporations is indefensible in theory, for corporations are only aggregations of individuals, and by such a tax the numerous small stockholders of a great corporation may be taxed at a higher rate than the very wealthy large stockholders of a relatively smaller corporation.

This is an accurate and unanswerable statement, and gives complete recognition to the services and deserts of the low-cost producer.

It is true that the Secretary favors the continuance of the graduated excess profits taxes, upon about the present scale, but there is justification for this attitude in the extraordinary emergency confronting the Treasury. In the midst of a terrible war, when there is need to use all of the available resources of the country, it is conceded that the government must look for money where it can be had, and cannot be held to strict theories of taxation. Nevertheless it is desirable that sound economic principles shall be recognized, even though for a time it seems necessary to transgress them. The country is willing, even against its judgment, to accept in good spirit almost anything in the way of taxation, or business regulation, or labor adjustments, for the sake of winning the war, provided it is understood that such methods are adopted for the war time only and are impracticable as permanent working conditions.

The alarm that is felt over some of these innovations is due to the evident fact that there is an element of the population, with representation in official life, who would like to take advantage of present conditions to commit the country to policies which would have no chance of adoption in ordinary times.

The Law of Social Progress.

The final test for all these innovations is whether or not their effect is "to deprive industry, foresight and sagacity of their fruits." If so, they are not only unjust to individuals but harmful to the whole social body, because they will retard the natural progress in industry by which the general amelioration of society is accomplished.

The most powerful agency for this progress is individual ambition and initiative. Men will strive and sacrifice for the sake of becoming forehanded and successful themselves and to make the lot of their children pleasanter and more hopeful than their own. Their successful labors accomplish results not only for themselves but for others. Society is carried forward by the efforts of its individual members. Their discoveries, inventions, devices, ideas, and achievements become the common property of the community. Their individual gifts and peculiarities, and the stimulus of varying environment and outlook, enrich the common experience and promote the common progress. Society in its proper desire to maintain equality of opportunity for all must beware of all that class of regulations which would restrict the opportunities and deaden the initiative of all. The best results for the millions are not to be had by a leveling process which takes away the rewards of individual effort, but by policies which foster and stimulate individual effort and development.

It is common knowledge that in misgoverned countries like Turkey, where taxation is oppressive and property holdings are insecure, there is little enterprise or progress, and living conditions among the masses are far below what they are in lands where property rights and personal rights are alike carefully protected. It is also true that in the newer and rapidly developing countries, like the United States, where the chances of individual advancement are better than in the older countries, ambition and initiative are more commonly displayed in the rank and file of the population than in the older countries, the people are more receptive to new ideas and industrial progress is more rapid.

It is fundamental that the individual shall be allowed to gather and enjoy the benefits which result from his own forethought and efforts, and this is just as true when a man has become a capitalist on a large scale as when his capital consisted of a set of tools or a quarter section farm. It may have become less important to him that his efforts shall be stimulated, but it has become of greater importance to the community, because his ability to serve the community has increased. He has the means, the experience and personal efficiency to accomplish much more than at the beginning of his career, and it does not follow that he will consume the benefits of his increased productive capacity, or that his enjoyment will be exclusive. That is never the case. Whether he wills it or not, the benefits are widespread.

Only that portion of his income which the owner spends upon himself and his dependents is devoted to him or them. All of the rest is devoted to the public as completely as though the title of ownership was in the State. The individual may toil, study, contrive and save, but all that he saves inures to others. He has the satisfaction that comes with effort and achievement, the sense of security in his advancing years, and of having made provision for loved ones. These are great satisfactions; men will always labor and sacrifice for them, but they are purely subjective rewards, which

cost the community nothing, while furnishing the chief incentive for the exertions which carry the world forward.

Ford in Mexico.

It is announced that Henry Ford intends to establish several plants for the manufacture of his tractor in Mexico. The plans for the first one call for the investment of $1,000,000, and Mr. Ford states that the profits from the Mexican business will not be taken out of Mexico, but invested for the development of business in that country. This will be good news there if the people understand the benefits which come from the development of stable industries. Mr. Ford does not personally need any income from the Mexican plants. They will be worth much to Mexico but nothing to him, in any material or economic sense. He will be gratified if they prosper and disappointed if they do not, but Mexico's stake in the enterprise is more tangible and vital. Of course Mr. Ford's policy in investing surplus profits for the development of other or larger business is the common policy of business men. But for the profits of the automobile business there would be no Ford tractor plant in either Mexico or the United States.

It is pertinent in this connection to speculate upon what the progress of Mexico would have been in the last seven years, and especially in the last four years, if there had been no revolution, and order and protection to industry and investments had been maintained. The country is a storehouse of the raw materials needed in industry the world over, besides having large capacity for food production. It had in 1910 a population of 15,000,000 people, lacking the capital and industrial experience to utilize these resources even for their own use. The people needed industrial organization, leadership, and to be supplied with equipment. Development was then under way, millions of foreign capital had been invested and its investment had created employment for thousands of the Mexican people. Wherever this had occurred the condition of the people was rapidly improving. Wages were advancing, schools were multiplying, and the standards of living were rising. Nobody would say that social conditions were all that could be desired, but it meant much that they were improving.

The war would have given an enormous impetus to Mexico's development. There has been a world shortage of silver, copper, lead, oil, sugar and other products of the country, the output of which might have been greatly increased in a state of peace. The resources were there, the labor supply was there, and conditions were such that capital would have poured into the country from the United States as never before. There would have been work for every man and woman who could be induced to work, and at wages never before approached in Mexico. The country would have had an industrial experience revolutionizing in its influence. Not only would the newly-imported capital have established permanent industries, but the profits of these industries would have been likewise invested, every dollar of capital creating new demands for labor. The buying power of the Mexican people would have been doubled, thus opening new opportunities in all the home industries and stimulating the energies and faculties of the people.

Unfortunately, Mexico during the last seven years has been in the throes of revolution. Destructive instead of constructive influences have had sway. No doubt real grievances existed under the old regime and many participated in the revolution from honest and patriotic motives, but the lesson of these seven years of disorder is none the less impressive.

The Spread of Radicalism.

There has been much talk to the effect that a great wave of socialistic sentiment is likely to sweep over all countries after the war, reorganizing industry, socializing wealth, equalizing incomes, etc., etc., but instead of the world being inoculated with radicalism from Mexico and Russia, there now seems to be a much greater probability that it will be warned by their fate. The excesses of the French revolution had a reactionary influence in other countries which lasted for years, although the uprising of the French people against the oppression they had endured is recognized as a great historic movement for human liberty.

There is a great difference between a co-operative attitude toward the natural evolution of society and the crude radicalism which has no conception of the processes of development and would reform society without regard to them. We may hope, indeed, for better conditions after the war, because there is reason to believe that much will have been learned from the war-time experiences and that therefore we will have a more efficient society. All classes have something to learn, and the most important lesson for each is to try to see the situation from other viewpoints than its own, studying the common interest. It is only as the common interest is advanced that any class can make progress.

Common Ground.

The leaders and members of the I. W. W., to the number of 100, who have been on trial at Chicago for conspiring to obstruct the war efforts of the national government were promptly found guilty by the jury. These people had set up a little government of their own which they were trying to make superior to the Government at Washington. They profess devotion to democracy, and to be seeking to estab-

lish equality among men, but instead of being willing to submit their proposals to popular judgment at the ballot-box, where the vote of an I. W. W. will count for precisely as much as that of any other citizen, their policy is to compel the adoption of their views by acts of disorder. Their leading tenet is that "the working class and the employing class have nothing in common."

Against this revolutionary doctrine it is gratifying to be able to quote from the Secretary of Labor, the Hon. William B. Wilson, himself for many years of his life a coal miner by occupation, and always active in the official circles of organized labor. Speaking of the labor situation in this country and particularly upon the I. W. W. agitation, in New York City recently, Secretary Wilson said:

> Labor and capital have a mutual interest, not an identical interest, but at least a mutual interest, in securing the largest possible production with a given amount of labor. The more there is produced the more there is to divide between capital and labor.
>
> One great reason why the American wage worker has been able to maintain a higher standard of living than the standard of living of wage workers anywhere else in the world has been because of the fact that the American wage worker produces more than any other wage worker in the world, notwithstanding the much advertised efficiency of the German workmen.
>
> If these people had succeeded in impressing upon the workers of the country that philosophy of sabotage and striking upon the job, reducing production—if they had reduced production to the point that existed prior to the introduction of machinery—the only thing that would have resulted would have been a lowering of the standard of living of those who were doing the actual physical labor. In the old days, before the rebirth of the inventive genius, when everything was produced by hand, when there was a lower standard of production than could possibly come from any system of sabotage they could now introduce, there were still profits for the employer, but the workers had a very much lower standard of living.

Upon this platform it is possible to have cooperation among all classes to forward the common interests of society. There is recognition of the fundamental fact that the way to improve social conditions is primarily by increasing production, and of the further fact that intelligence, skill, organization, self-denial, savings, capital, are factors in production to be recognized and rewarded. When these principles are agreed upon not much is left to contend over. It is true that disagreements will arise between wage earners and employers, as disagreements in the business world will always arise, but the basis for agreement exists and no basis for a class conflict remains. Every dispute and policy is brought to an agreed test—the test of its effect upon production—in which they have a mutual, if not identical, interest.

Under the division of labor men distribute themselves in the various occupations and exchange products, because the total product is greater than it could be with each person trying to supply all his own wants. There may be, however, a degree of conflict between the interests of workers in different occupations. The farmers may think that they do not get enough of other products in return for feeding the community, the coal miners may think they do not get enough for keeping it warm, or the shoemakers may think they do not get enough for keeping it shod; they may haggle and bargain about the proper value—relation between wheat, coal and shoes, but while their interests are not identical they have a mutual interest that wheat, coal and shoes shall be produced by the most economical and efficient methods. This is the situation as to the whole industrial organization and all the factors of it.

The Bond Market.

The outstanding feature of the bond market for August was the continued strength of the foreign government issues. The Anglo-French bonds, the United Kingdom issues, the Government of the French Republic 5½s, the American Foreign Securities 5s, City of Paris 6s, Bordeaux, Lyons and Marseilles 6s, and the Russian Government issues have all sold at the highest prices reached for several months. The strength of these foreign issues reflects investment buying in large volume, much of which is absorption of the best character. Back of this buying, of course, is the increased confidence caused by the continued success of the Allied arms in France. The Russian bonds have been more directly affected by the collapse of the Bolshevik movement and the hope that German propaganda in Russia may be checked and the eastern battlefront reestablished by Allied forces.

Another interesting feature of the market has been the continued strength of the railroad, industrial and public utility issues maturing within ten years which have been put out within the last few months. These issues include the Union Pacific 6s, Proctor & Gamble Notes, Bethlehem Steel Notes and American Telephone & Telegraph 6s. Coincident with the strength of these securities has been the rapid and successful sale of other similar issues maturing within a few years. These include $3,000,000 Graton & Knight Manufacturing Company Serial 7s, $6,000,000 Moline Plow Company Serial 7s, $10,000,000 Duquesne Light Company (Pittsburgh) Three Year 6s, $5,000,000 American Cotton Oil Company One Year 7s, and $2,100,000 Potomac Electric Power Company Five Year 6s. The bankers who handled these issues report not only a demand from institutions but widespread buying by individual investors as well.

Following are other important issues:

$3,750,000 Amalgamated Sugar Co. 7% Serial Bonds due August 1, 1919-23 at prices to yield 7.50% to 7.90%.
1,750,000 China Mail Steamship Corp. of California 7% Bonds due July 1, 1919-21, at prices to yield 7½%.
6,000,000 Cities Service Company 7% Debentures due January 1, 1966 at 102½ and interest
1,250,000 East Bay Water Company 6% Notes due August 1, 1923, at 98 and interest, to yield about 6½%.
1,500,000 Hydraulic Power Co. of Niagara Falls 5% Bonds due October 1, 1951, at 89 and interest, to yield about 5.75%.
3,500,000 Hydraulic Pressed Steel Co. 7% Notes, due July 1, 1921, at 97⅜ and interest, to yield about 8%.
1,500,000 Nashville, Chattanooga & St. Louis Ry. 5% Bonds due April 1, 1928, at 95½ and interest, to yield 5.60%.
1,000,000 Pierce Pipe Line 6% Notes, due 1919-1920 at prices to yield about 7% to 7¼%.
1,250,000 United Light & Railways Co. 7% Notes due April 1, 1923, at 96 and interest, to yield 8%.
1,581,000 West End Street Ry. 7% Bonds due August 1, 1924, at 102.45 and interest, to yield about 6½%.

The municipal market during August has been in a very confused state owing to the discussion as to taxing the income from municipal securities. There are two plans being considered—first, that all new issues of municipal bonds except those issued for refunding purposes be made taxable. All old outstanding municipal issues would retain their tax exempt privilege under this plan. This suggestion caused a strong demand for municipal bonds, especially of the larger cities, United States Liberty 3½s, Federal Land Bank bonds and territorial bonds. Second came the suggestion that all municipal bonds be classed for taxation purposes the same as the Liberty 4s and 4¼s, that is, exempt from normal taxes and taxable for surtaxes. In the opinion of eminent counsel, however, any tax upon the income from state and municipal bonds would be unconstitutional.

The United States Liberty 3½s have sold as high as 102½, a 3.375% basis, and the Federal Land Bank 5s have sold as high as 106⅛, a 3.65% basis.

Following are the most important offerings:

$ 308,750 Buffalo, New York, 4½% Bonds, on a 4.50% basis.
500,000 Cleveland, Ohio, 5% Bonds, on a 4.625% basis.
[illegible] Columbus, Ohio, 4½% Bonds, on a 4.55% basis.
1,000,000 Essex County, New Jersey, Tax Anticipation Notes, on a 4.40% basis.
2,500,000 Louisiana Port Commission 5% Bonds, on a 4.85% basis.
200,000 Lowell, Mass., Temporary Loan, on a 4.50% basis.
750,000 Milwaukee, Wisconsin, 5% Bonds, on a 4.60% basis.
1,000,000 Province of Manitoba 6% Debentures, on a 6.25% basis.
350,000 Salt Lake City, Utah, 5% Bonds, on a 4.50% basis.
300,000 Seattle, Washington, 5% Bonds, on a 4.80 % basis.
2,500,000 State of Maryland 4½% Bonds, on a 4.35% basis.
1,000,000 State of Tennessee 4¼% Notes, on a 4.35% basis.
638,000 Trenton, New Jersey, 5% Bonds, on a 4.65% basis.

The average price of 40 standard issues, as reported by the Wall Street Journal on August 28, was 82.93, compared with 83.19 on July 28, and 89.19 on August 28, 1917.

The Exchanges.

The feature of the foreign exchanges of late has been the rise of Italian lira. In May the lira, which has the same par value as the franc, i. e., 19.3 cents, sold in this market as low as 9.15 to the dollar, but it has risen to 6.35. There is always a good demand for

STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS AUGUST 23, 1918.
(In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco	Total
Gold coin and certificates in vault	3,296	287,040	[illegible]	[illegible]	6,280	[illegible]	29,275	1,980	8,425	219	6,416	12,725	[illegible]
Gold Settlement Fund	79,697	103,553	48,481	67,788	27,830	19,251	81,046	34,032	11,383	30,201	7,299	42,499	[illegible]
Gold with foreign agencies	[illegible]	[illegible]	408	525	[illegible]	175	816	233	233	291	204	321	5,829
Total gold held by banks	83,401	392,604	[illegible]	[illegible]	34,314	[illegible]	111,137	36,245	20,041	30,711	13,919	55,545	943,961
Gold with Federal Reserve Agents	[illegible]	277,893	113,780	126,174	38,278	27,424	156,622	51,775	22,862	48,711	13,873	81,190	1,018,767
Gold Redemption Fund	[illegible]	[illegible]	[illegible]	1,007	924	2,355	4,511	2,611	2,415	1,101	[illegible]	81	40,323
Total gold reserves	147,656	685,497	167,948	217,833	73,516	56,003	272,270	90,631	45,318	80,523	29,040	136,816	2,003,051
Legal tender notes, Silver, etc.	2,344	43,231	730	320	802	434	1,872	607	106	402	1,182	[illegible]	52,215
Total Reserves	150,000	728,728	168,678	218,153	74,318	56,437	274,142	91,238	45,424	[illegible]	30,222	137,001	2,055,266
Bills discounted, Members	67,414	552,409	85,183	82,512	56,567	46,965	[illegible]	47,697	64,288	62,489	42,917	75,725	1,393,795
Bills bought in open mark't	26,440	125,276	11,035	26,111	5,588	3,122	14,714	1,925	435	129	634	21,117	236,526
Total bills on hand	93,854	677,685	96,218	108,623	62,155	50,087	224,343	49,622	64,723	62,618	43,551	96,842	b 1,630,321
U. S. Governm't long-term securities	912	1,453	1,348	2,560	1,233	625	4,509	1,153	122	8,871	4,347	3,461	[illegible]
U.S. Governm't short-term securities	1,416	10,158	1,210	1,695	1,510	991	2,112	321	926	1,239	[illegible]	1,000	23,479
All other earning assets						62							62
Total Earning Assets	96,212	[illegible]	98,776	112,878	[illegible]	51,765	[illegible]	51,096	65,771	72,728	[illegible]	101,303	1,684,486
Uncollected Items (deduct from gross deposits)	40,933	145,515	71,341	47,742	38,232	[illegible]	[illegible]	[illegible]	10,783	50,523	16,536	31,613	[illegible]
5% redemption fund against F. R. bank notes		74	[illegible]			19	[illegible]			394	137	[illegible]	958
All other resources	771	[illegible]	[illegible]	677	779	749	1,160	552	[illegible]	908	654	1,356	11,294
TOTAL RESOURCES	287,916	1,565,469	340,468	379,450	178,227	136,532	[illegible]	181,725	122,187	205,478	[illegible]	271,357	4,353,987
LIABILITIES													
Capital Paid in	[illegible]	20,017	7,151	8,703	3,921	3,114	10,693	3,687	[illegible]	3,545	3,050	4,513	77,750
Surplus	[illegible]	[illegible]			116	[illegible]	216		38				1,134
Government Deposits	21,059	19,279	13,628	20,854	6,676	[illegible]	26,941	9,975	1,733	11,181	9,576	22,470	173,027
Due to members reserve account	89,839	613,645	[illegible]	[illegible]	46,225	37,581	191,793	[illegible]	36,369	[illegible]	30,321	[illegible]	1,459,480
Collection Items	[illegible]	113,354	55,041	39,078	32,111	22,501	47,553	30,176	19,393	[illegible]	11,621	19,341	450,947
Other deposits incld'g For. Government credits		108,002		[illegible]		11	1,272	120	36		3	2,993	112,597
Total Gross Deposits	[illegible]	[illegible]	151,228	168,455	[illegible]	[illegible]	[illegible]	[illegible]	57,531	106,190	51,521	114,512	2,196,051
F. R. Notes in actual circulation	134,157	649,650	180,426	200,159	87,767	62,722	[illegible]	[illegible]	60,607	85,958	[illegible]	149,218	a 2,032,837
F. R. Bank Notes in circulation net liability		344	258			110	4,216			7,820	2,691	1,425	[illegible]
All other Liabilities	2,206	10,529	1,405	2,133	1,411	798	3,877	1,184	1,147	1,965	1,007	[illegible]	[illegible]
TOTAL LIABILITIES	[illegible]	1,565,469	340,468	379,450	178,227	[illegible]	[illegible]	181,725	122,187	[illegible]	96,348	271,357	4,353,987

(a) Total Reserve notes in circulation, 2,032,837.
(b) Bills discounted and bought: U. S. Government short term securities; municipal warrants, etc.: 1—15 days 1,011,627; 16—30 days 160,570; 31—60 days 228,447; 61—90 days 217,249; over 90 days 35,969. Total 1,653,862.
Ratio of gold reserves to net deposit and Federal Reserve note liabilities combined 56.7%. Ratio of total reserves to net deposit and Federal Reserve note liabilities combined 73.7%.

Italian exchange in this market from our Italian population wishing to make remittances to Italy, but heavy merchandise purchases in this country and offerings of Italian drafts by South America, Paris and London had created a larger supply of exchange than could be absorbed. By concentrating all trading in an official bureau here and regulating the outside offerings, with the help of loans granted to the Italian government by Washington, the situation has been brought under control. French francs have also improved from about 5.70 in May to 5.55, a movement doubtless assisted by the disbursements on account of our Army and Red Cross in France. On the other hand Swiss francs, which have the same par value, have declined from 3.90 to the dollar in May to 4.30. The Spanish peseta, also worth nominally 19.3 cents but for many years before the war a cent or two below par, was up to 28 cents in May and is now down to about 23.7. Although all of these quotations are nearer par than they have been before this year they still show a sad state of confusion.

Reports are current that a large credit has been negotiated by this Government in Madrid, which will steady that situation, and negotiations are pending with Argentina, Uruguay, Chili, Peru, Bolivia and perhaps other South American governments, looking to the granting of credits to enable our importers to settle their debts in those countries.

In view of the appeals which our Government is making to Spain, South American countries and elsewhere, on the score of trade relations, international comity, etc., for credits to facilitate our intercourse with them, it seems a little strange that we do nothing for the relief of our good neighbor, Canada, who is in precisely the same position in her relations with us. Canada has been buying heavily of us, largely of raw materials which have entered into war work, and the balance of trade is in favor of the United States to such an extent that since last spring New York exchange has been at a premium of about 2 per cent. in all Canadian cities. The Canadian government maintains an embargo upon the exportation of gold, as our own government does, and so Canadians who have payments to make in the United States are without the ordinary facilities. They must offer somebody an inducement to create the facilities, and it costs about $2 on every $100 for them to make a payment across the boundary. The Prime Minister and Minister of Finance have made several trips to Washington about it, and have doubtless urged every argument which our own government has offered on our own behalf to Argentina, Chili and Spain. The Canadian case is really a much stronger one, for, in the first place, Canada is fighting by our side, and whatever we can do to help her bear the strain under which she is laboring will help win the war; but, further than that, our business relations with Canada are more important than with any other country. New York is the natural headquarters for this continent and Canada's surplus funds are usually employed in this market. These relationships involve obligations. It is hardly too much to say that we should be as interested in facilitating financial relations with Canada as between different sections of this country. As a means of correcting the situation the Canadian government has felt obliged to take steps restricting importations from this country.

The situation in no sense reflects upon Canada. She has a large balance in her favor on her total foreign trade, and on her trade with England, but she has imported much more from the United States than from other countries, and in the disordered state of the exchanges is unable to convert her credits elsewhere into credits in our markets. The remedy would seem to be either in having England borrow for Canada at Washington or for Washington to lend direct to Canada as it does to Italy, Belgium, France and other allies. And, finally, as considerate treatment of our best customer, and for our mutual advantage, why should we not do it? This seems to be a peculiarly opportune time to reflect upon the excellencies of the Golden Rule.

Discount Rates.

Discount rates of each Federal Reserve Bank approved by the Federal Reserve Board up to August 30, 1918.

Federal Reserve Bank.	Maturities. Discounts. Within 15 days, including member banks' collateral notes.	16 to 60 days, inclusive	61 to 90 days, inclusive	Agricultural and live-stock paper over 90 days.	Secured by U. S. certificates of indebtedness or Liberty Loan bonds: Within 15 days, including member banks' collateral notes.	16 to 90 days, inclusive	Trade Acceptances. 1 to 60 days, inclusive	61 to 90 days, inclusive
Boston	4	4¾	4¼	5	4	4¼	4½	4½
New York*	4	4¼	4¼	5	4	4¼	4½	4½
Philadelphia	4	4¼	4¼	5	4	4¼	4½	4½
Cleveland	4¼	4¾	4¾	5¼	4	4¼	4½	4½
Richmond	4½	5	5	5¼	4¼	4¼	4¾	4¾
Atlanta	4	4¼	4¼	5	4	4¼	4½	4½
Chicago	4	4¼	4¼	5½	4	4¼	4½	4½
St. Louis	4	4¼	4¾	5½	4	4¼	4½	4½
Minneapolis	4	4¾	5	5½	4	4¼	4½	4½
Kansas City	4½	5¼	5¼	5½	4¼	4¼	4¾	4¾
Dallas	4	4¾	5	5¼	4	4¼	4½	4½
S'nFrancisco	4½	5	5	5½	4¼	4¼	4¼	4¾

*Rate of 3 to 4½ per cent for 1-day discounts in connection with the loan operations of the Government.

Note 1.—Acceptances purchased in open market, minimum rate 4 per cent.

Note 2.—Rates for commodity paper have been merged with those for commercial paper of corresponding maturities.

Note 3.—In case the 60-day trade acceptance rate is higher than the 15-day discount rate, trade acceptances maturing within 15 days will be taken at the lower rate.

Note 4.—Whenever application is made by member banks for renewal of 15-day paper, the Federal Reserve banks may charge a rate not exceeding that for 90-day paper of the same class.

THE NATIONAL CITY BANK OF NEW YORK

1918

Economic Conditions
Governmental Finance
United States Securities

NEW YORK, OCTOBER, 1918.

Fourth Liberty Loan.

THE Fourth Liberty Loan offering is for $6,000,000,000, the largest loan ever proposed. The interest rate is the same as upon the Third Loan, 4¼ per cent. The bonds will mature on October 15, 1938, but the United States has the option of payment on and after October 15, 1933. A special feature is an exemption of the income from these bonds up to $30,000 in the hands of one holder from surtaxes and excess profits and war profits taxes, until two years after the end of the war. Furthermore, a taxpayer who subscribes for $30,000 of these bonds and still holds them at the time of making his income return will also be granted a similar exemption upon the income from $45,000 of the Second and Third loans, and subscribers in lesser amounts will be granted a like proportionate exemption. The selling campaign began on September 28 and will close on October 19. The allotment by Federal Reserve Districts is as follows:

District.	Per cent.	Amount.
Boston	8.33 1-3	$ 500,000,000
New York	30.00	1,800,000,000
Philadelphia	8.33 1-3	500,000,000
Cleveland	10.00	600,000,000
Richmond	4.66 2-3	280,000,000
Atlanta	3.20	192,000,000
Chicago	14.50	870,000,000
St. Louis	4.33 1-3	260,000,000
Minneapolis	3.50	210,000,000
Kansas City	4.33 1-3	260,000,000
Dallas	2.10	126,000,000
San Francisco	6.70	402,000,000
Total	100.00	$6,000,000,000

The allotment is in slightly different proportions from that of the Third Loan, the Treasury having taken account of financial conditions in the several sections.

In many localities the organization for taking subscriptions was well under way before the formal opening, and "over the top" announcements are expected earlier than heretofore. The offering is not only double that of the Third loan, but the task is made more difficult by the prospective doubling of taxes, which lessens the ability of the class from whom large subscriptions must come. Nevertheless, there is general confidence about the outcome. With the boys winning victories as they are in France, there must be no shrinking from the task to be performed at home.

We have always maintained that the country could pay for all the work it could do. Before it can do any war work it must necessarily provide for its own essential wants. The work done for the Government is all beyond and outside of the work which is necessary to feed, clothe and care for our people. In other words it represents surplus income, and as surplus income we can take it in the Government's promises to pay at a future date. The problem is only that of gathering up our resources.

Taxation.

The new revenue bill to provide $8,000,000,000, having passed the House is now under consideration in the Senate Committee. It is not supposed that the amount sought to be raised will be lowered or that personal income taxes will be materially altered. Strong representations will be made for some modification of the taxes upon business profits. The objections to the proposed taxes of this class are, in brief, that the nominal profits of business concerns at this time do not exist in cash and cannot be withdrawn to the extent required without liquidating and curtailing the operations of the companies to a serious degree. The high cost of labor and materials, increased freight charges and other expenses require so much more capital that even where the apparent profits are large they cannot be spared and in many instances resort must be had to borrowing.

Furthermore, there is earnest representation that these book profits are to a great extent illusory, and will never be realized. They are largely accounted for in the inventories of materials on hand, valued at cost or present market prices, and are in fact assets of very uncertain value. Sooner or later all of these inventories must be marked down, and when this is done the profits now shown on the books will largely disappear.

Instances are not uncommon where companies will have trouble in borrowing the money required to pay their taxes, for bankers are fully aware of the doubtful character of the profits in sight and have no inclination to discount them.

These are times when taxes of necessity must be heavy, and it is worse than useless to utter complaints merely because they are heavy, but all the more care should be exercised that taxation shall not be unjust. A tax that is fully justified when levied upon profits actually realized may be very unfair if imposed upon book profits which are calculated upon materials in stock at present prices. Men do not expect to go out of business in order to realize these profits for the purpose of paying taxes, and it is not to the public advantage that they shall do so. Men go on with their business even when they know that a great shrinkage of values is inevitable, but some recognition of the ephemeral character of book profits at present should be given in levying taxes on them.

Provision is made for amortizing the value of buildings erected especially for war purposes, and it does not seem impossible to arrange for reasonable reservations to provide for the shrinkage of inventory values, such reservations to be finally accounted for at a later date.

Uncertain Profits.

The American Smelting and Refining Company in one of the companies that figured conspicuously last year in the list of companies said by the advocates of extreme taxation to be making extravagant profits. It was named in the report of the Federal Trade Commission upon Profiteering. This company paid 6 per cent. dividends on its common stock last year, and, according to its statement just issued, in the first six months of 1918 barely earned the 3 per cent. necessary to maintain the dividend. The surplus of last year all went into the business, and largely, according to the President's report, into extensions necessary for the handling of war business, but which otherwise will be a dead investment for some time to come. Stockholders have had no more than 6 per cent. Cost and inventories are now on a high level, and the $100 shares are selling at $78.

We are in receipt of a letter from an important company which sets forth one objectionable feature of the bill as it has passed the House, as follows:

> A point which we would like to bring to the attention of your Tax Department will be of extreme importance to your customers in the manufacturing line, although it has no particular bearing on the business of a bank. The 1917 law distinctly sets aside dividends received by an individual according to the year in which the dividends were earned. It is the practice of many corporations in the manufacturing line to wait until the end of the year to determine the amount of their profits, because of the uncertainties of business, and the result is that many of them declare their dividends in January after closing their books for the preceding year. The proposed law indicates that this plan will be abolished and therefore the effect on the income of the individual is to make him pay the immensely increased tax on the basis of the 1918 law for the dividends received in January on 1917 business.
>
> Furthermore, many individuals have set aside a reserve to pay their tax for this 1917 profit on the basis of the 1917 law, and it will be a hardship for them to pay double this amount if the new law is permitted to pass without the same provision being held for the allocation of dividends that was applied in the 1917 law.

Inflation.

The effects of inflation have been visible for some time in wages and the prices of commodities, but not in the prices of securities or of real estate. This fact is the subject of much inquiry and comment. If inflation is a factor of general import, as it is supposed to be, affecting the purchasing power of money, why doesn't it show in the prices of bonds and stocks and of real estate? What is modifying or retarding its influence in these quarters, and will its effects appear in these prices later?

Defining Inflation.

As the first step toward any discussion of inflation it is necessary to have an understanding of the term. Some persons apply it only to an undue expansion of paper currency, but an expansion of bank loans and deposits has the same effect, since checks are now the common medium of payments. Others in referring to inflation have in mind a general state of abnormally high prices incidental to great industrial activity, whatever the primary cause may have been. Many people argue that the inflation of credits at this time is wholly the result of the war demands, but they take no account of the part played by an increased supply of credit or money in facilitating the demands. In time of peace a country's industries are occupied in supplying its consumptive wants and in construction work to enlarge its powers of production. If, when a country goes to war, it would curtail these accustomed demands enough to offset the new war demands, there would be no rise of prices. But people do not curtail their accustomed demands to any such extent. They go on trying to buy and consume as usual, and since there is not labor enough to do everything, employers raise wages to get labor away from each other, and all prices and costs rise. More credit is required to handle all business under these conditions, but whatever amount of credit is supplied is quickly absorbed, because the bidding for labor and materials continues. In short, each new supply of credit finances a further rise of prices, because costs and prices follow each other around a circle.

It is this relation of credit to price inflation that we are now discussing. The prevalent idea seems to be that since an undue expansion of the medium of exchange has the effect of diluting and depreciating it, the depreciation should be the same in relation to all kinds of property. This is not the effect, for the simple reason that there is not an equal demand for all kinds of property. In other words, the depreciation of the currency, or purchasing agency, does not occur simply as a result of increasing quantity, but from increasing competitive efforts to exchange it for something else. If there was no attempt to use enlarged purchasing facilities there would be no effect upon prices. There is

no abstract calculation or measurement of values, but an ordinary operation of the law of supply and demand. A greater relative supply of currency, accompanied by strenuous efforts to exchange it for certain things which are of immediate importance, causes the currency to lose purchasing power with relation to those things.

War the Primary Cause.

The primary cause of this great rise of wages and prices of course is the war. It has taken millions of men from the industries and set up an enormous demand for the war supplies. It has given an abnormal value to everything that can be made serviceable for war purposes or that supplies immediate needs. There is a strenuous effort to expand the production of these necessary supplies. All energies are directed into this channel. In the endeavor to accomplish this expansion along certain lines an expansion of credit occurs, but the use and influence of this credit is closely confined to these lines. Indeed the expansion of credit in part results from efforts to transfer capital from other lines. Owners mortgage or sell out fixed investments in other kinds of property at a sacrifice for the purpose of converting their capital into war uses. They sell municipal bonds, railway bonds, stocks, real estate, etc., in order to buy Government offerings or to supply capital to the war industries.

A few stocks have gained in market value because the financial condition of the companies has improved, but as a rule, market gains do not equal the gains in assets. One reason for this probably is that uncertainty hangs over the prospects for business after the war, but another is that the investing power of the country is being directed into other channels. Formal notice has been given to the New York Stock Exchange that credit expansion for the purpose of stock purchases will not be permitted, but even before this notice was given borrowing upon stocks had been voluntarily reduced to a point much below normal.

Real estate does not feel the expansion of credit because almost none of the new credit is being used for the purchase of real estate. Nobody wants vacant, unproductive real estate at a time when the cost of improvements is double that of normal times. Real estate feels the stimulus only if within the field of war activities; otherwise it is depressed by the lack of demand and the efforts to convert such property into cash for investment in other fields.

Will Stocks Feel Inflation.

How long will this condition exist? When may a tendency to equalize the effects of inflation be expected to develop?

The answer is that there is no certainty that the effects of inflation will reach stocks. That is to say, general deflation may come before the effects of inflation reach stocks. It depends upon conditions after the war.

When the war comes to an end and offerings of Government bonds cease, undoubtedly the situation will change, but so many changes will occur that it is not safe to predict what the result will be.

If industrial activity and earnings continue as at present after the Treasury drops out of the market as a borrower, it is safe to predict that capital will flow into the general investment market, and stocks, bonds, securities and real estate will receive their normal share of attention, and benefit accordingly, but this is assuming the very conditions about which there is uncertainty.

Stocks represent proprietary interests in companies whose assets consist of land, buildings, machinery, materials, goods, etc. If labor costs were established on the present level to stay, it would be impossible to duplicate these properties except with a much higher capitalization than they have, and this fact would naturally raise their capital value and thus bring about higher prices for the certificates of ownership. This is the method by which logically the effects of inflation would spread to stocks. But labor costs probably will decline after the war, and it is also to be considered that in many lines a large increase of capacity has been developed during the war and costs written off out of war profits. It is not probable, therefore, that the high costs of duplicating existing plants will be a present influence after the war.

Industrial Conditions Will Govern Prices.

To sum up the status of stocks, securities, real estate, and such other forms of property as have not shown the influence of credit inflation, the explanation is that credit inflation acts upon prices only as it increases demand, and in the instances named the demand has not been increased. On the contrary, the expansion of credit is itself a symptom of a general effort to convert, pledge or subordinate other forms of property to the forms which are more immediately serviceable in the war emergency. The war influence dominates, depressing some values and enhancing others.

After the war is over, there will be a change of all conditions. When the Government orders are finished and paid for, unless a similar volume of equally urgent demands spring up from new sources the inflation of credits will subside. Bank loans and deposits will decline and the percentage of bank reserves will rise. This would mean a readjustment of values toward the pre-war basis. Evidently the course of this readjustment will be governed by the industrial situation and prospects at that time. If the transition from war conditions to peace conditions is fortunately accomplished; if industry is well sustained and free from disorganizing controversies, so that both the investing and consuming power of the country is large, the establishment of a feeling of full confidence is likely to be followed by one of the greatest periods of construction and expansion the coun-

try has ever known. The future of wages, prices and values in general will depend upon harmonious, highly-organized, efficient, well-balanced industry, creating new wealth at a rate sufficient to satisfy the growing wants of the people.

Credits at the End of the War.

Will this state of inflation end with a collapse of credit after the war? It is safe to say that the credits which have been created for war purposes in this country will be generally liquidated at the end of the war without losses, because they rest at last upon the credit of the Government. When the Government purchases fall off and its contracts are liquidated, there will be a general liquidation of private indebtedness related to war work, and war work is now the chief factor in industry.

There has been no considerable expansion of credit outside of the war industries. Building operations and new construction of all kinds are at low ebb, except as related to the war industries; real estate is inactive, loans for the purchase of stocks and securities are lower than usual, and the prices of stocks, bonds and real estate are below rather than above the normal level.

These are not the conditions under which panics occur from an over-extension and collapse of credit. It is evident, therefore, that although an abnormal expansion exists at this time the situation is different from that of a boom period, when credit is over-extended upon the basis of more or less speculative private enterprises, about which confidence may be eventually weakened. The statements of corporations generally show that their financial condition has improved in the last three years. They have made only moderate distributions from earnings, have reduced their bonded indebtedness, and although current indebtedness is large, that should be covered by the orders in hand.

A tight rein is being held upon every tendency to use credit outside of essential purposes, and there is little temptation or opportunity to use it along venturesome lines. As a result there is less uncertainty about the credits of the country than in ordinary times, and there is no danger of anything like a general breakdown or panic while the present situation exists.

The danger of a credit collapse will come, not in the liquidation of the credits now outstanding, or of succeeding credits based upon war business, which practically have the credit of the Government behind them, but at the end of the boom period, if there should be one following the war, when credits will have nothing behind them but private enterprises and promises, and the whole situation is based upon an inflated and uncertain state of values.

After the War Industry.

We may expect that after the war there will be a waiting demand for many kinds of goods and equipment so urgent that for a time price will be a secondary consideration. The whole world is doing without things that it would gladly buy, wearing out equipment and falling behind its wants. It is falling behind in house-building, for example, in road-making, in railway extensions and in the development and improvement of public utilities. Automobile construction has nearly ceased, and the cars in use will be nearly worn out. Clothing will be worn out the world over, and stocks of cotton will be low, therefore there will be a good market for cotton and our cotton states should be prosperous. Not only is there the rebuilding and rehabilitation of the war-devastated districts to be done, but the development of the backward countries looms up with more definite and immediate promise than ever before. The world is not going to seem so large, or its divisions so separate and distinct from each other as in the past. Foreign countries will not appear so remote and difficult of access to Americans. Undeveloped resources which will contribute to the comfort and welfare of mankind will not be neglected anywhere if stable government and protection to investments can be had. The stir of the war will be in the blood of all nations and the impulse to do things will be manifest. These are the conditions favorable to a period of enterprise and activity, and which will tend to sustain prices or moderate their decline.

The Decline of Prices.

Nevertheless, it is inevitable that prices will be upon a declining scale and this will be the factor of uncertainty and danger in the situation. Falling prices, shrinking values in inventories, stocks of goods and capital investments, have a depressing influence. It is comparatively easy to make money when prices are rising; the most venturesome may be the most successful then. Errors of judgment are made good by something outside the management. Farmers of even indifferent skill, who could make but a poor showing of profits from their farming operations, have become well-off from the rise of land values. The situation is very different with prices on a declining scale, for then not only is there no margin furnished gratuitously by an unearned difference between buying and selling prices, but a portion of the normal earnings is lost, and as net earnings decline, capital values shrink, credit is unfavorably affected, and indebtedness becomes relatively heavier and more burdensome. Therefore it is in order to give warning against incurring indebtedness which will reach over into the period after the war, when prices and earnings will be lower than now.

Prices must decline, for one reason, because the conditions which occasioned the rise will be reversed. The millions of men withdrawn from industry will be returned to it, and the millions of women who have entered industry will not all leave it. Although it is true that there is a

vast amount of work waiting to be done, private employers will count the cost of capital investments more carefully than the Government counts the cost of war supplies, and the demand for labor even if sufficient to absorb the great supply, will not be so urgent as in wartime. It is probable that the governments will take action during the transition period to provide employment, but constructive work will enlarge the facilities of production and increase the flow of products, and thus contribute eventually to the fall of prices.

The inventive genius and energies that have been active during the war in other channels will be applied to the task of supplying the common wants of the population. Many lessons both in production and economy have been learned which will be of lasting value. Science is constantly making discoveries which cheapen industrial processes, and science is being applied to industry more systematically than ever before. The decline of prices which results from such economies is not harmful to those able to take advantage of it but it is likely to be serious to those who do not keep up with the movement.

The basic industry, agriculture, whose products are the chief factor in living conditions and in the wage question, and therefore closely related to costs in all industries, is susceptible of great improvement in methods, and some are under way. Plans are being laid in several of the countries at war for placing ex-soldiers upon land, and in the United States the Secretary of the Interior is developing a plan to that end. With the exception, possibly, of live stock, it is probable that farm products will soon find their way back to former levels, and if so this will have a powerful influence upon other prices. It is safe to say that the workers in agriculture will not be satisfied to exchange products with workers in other industries on a basis less advantageous to themselves than in the past.

The Gold Standard.

There is another reason why prices must come down after the war, and that is that unless they do the monetary systems of the whole world will have to be reorganized in a manner which will not only do great injustice to all persons who hold a creditor position, but involve business affairs generally in such confusion as will disorganize production and the exchanges and occasion losses to all classes.

The monetary systems of the world almost without exception, are now based upon gold. The monetary units of nearly all countries are fixed in terms of gold, and since they all have a fixed relation to the grain of gold it follows that they have a definite relationship to each other. This is favorable to international commerce and financial relations. China has been the only important country whose currency was not related to the gold standard, but its government has taken steps within the last month for establishing such relationship. The great service of this common unit of value in world affairs is illustrated and emphasized at the present time by the difficulties which arise because temporarily the free movements of gold are interrupted.

Gold Mining Unprofitable.

But the present rise of prices has destroyed the normal relationship between gold and other commodities. Gold is priced in terms of itself; an ounce of it will bring $20.67 at the United States mint, because at the coinage rate an ounce will make that amount of money. There is no magic about the act of coinage. The word "dollar" is simply the name given to 25.8 grains of gold nine-tenths fine. The Government does not attempt to determine the exchange value of the "dollar;" that depends on the law of supply and demand, and unfortunately for the gold producers there are other ways of producing dollars than by digging gold, and just now there is a great output of "credit" dollars. Since there are restrictions upon the disposition of gold outside of the mint, he can get no more than the mint price, and the cost of mining gold has risen until mines of low grade are working at a loss or closing down, thus reducing the new supplies.

The production of gold cannot be maintained at its present valuation in relation to other commodities. That is to say, with labor, coal, machinery, chemicals and other supplies necessary to its production at present prices, gold cannot be produced at a profit to be coined at $20.67 per ounce.

Gold, Credit and Prices.

While the war goes on credit will be artificially elastic in order that the necessities of the Government may be met, and the risk of credit expansion is minimized, as stated above, by the fact that Government credit is so largely behind the situation; but when the war ends this reduction in the output of gold is bound to make itself felt in the credit situation. The normal additions to banking reserves will not be made, and credits will be correspondingly restricted, with the result that prices will decline. The influence is the reverse of that which has been seen from rapidly increasing bank reserves.

In short, the level of prices has a definite relation to the standard of value. Following the discovery of the South African gold field, and of the cyanide method of treating ores, the world's production of gold increased rapidly, and a period of what was called "gold inflation" and rising prices ensued, lasting down to the outbreak of the war, although the rate of production was practically at a standstill for several years before the war. The amount of bank credit available before the war was related to the bank reserves, and the level of prices the world over was adjusted to this relationship. It is possible, temporarily, by the use of Government credit, to sustain a higher level of prices without

a corresponding increase of gold reserves, but it cannot be done permanently. The circulating credit must be freely convertible into the standard of value, if prices are to have any definite relation to the standard, or if prices in different countries are to have any definite relation to each other.

In short the prices of other things must come down in relation to gold if gold is to remain the standard of value. Under the present relationship gold production will stop, and bank reserves will be at a standstill until prices fall sufficiently to allow gold production to be resumed.

Substitute Standards.

Of course there are people who think that the gold standard should be abolished. Some of them are unable to understand that money must be definitely related to concrete values; that a unit of value must have value in itself, as a unit of length must have length, a unit of weight must have weight, and a unit of volume measure must have certain volume capacity. They cannot see that if the word "dollar" was not attached to some concrete thing which possessed value it would convey no idea of value whatever. Suppose that by some magic the word "bushels" was suddenly substituted for the word "dollars" wherever the latter occurs, upon money, in promissory notes and contracts, in price-lists, bank accounts, etc., what confusion would ensue!

Passing from the believers in fiat money, there is a respectable company which has written upon the idea of a multiple or composite commodity standard, the idea being to attach the currency definitely to a unit which would represent the average value of a list of staple commodities. Such a system is conceivably possible, but the unit would be a theoretical one, and, of course, conversion of the currency into standard money, for the settlement of international balances and in the automatic regulation of credits would be out of the question.

The probability is that if such a system was adopted the business world would continue to use gold as the most convenient means of settling balances, and that the currencies of the world would be quoted in terms of gold, and compared with each other in this manner.

Gold Reserves With a Commodity Standard.

Professor Irving Fisher has proposed a new feature for the commodity standard. His proposal is that we continue to base our currency upon gold, but that the amount of gold represented by the paper dollar be changed from time to time in order to maintain a substantially fixed relation between the "dollar" and the value of commodities. In other words, the "dollar" would be "corrected" from time to time to conform to prices, and to keep the average of commodity prices at a uniform level. By this means the gold dollar would be a compensating balance for the commodity unit. If the list of commodities adopted as the standard showed a tendency to rise, on the average of them all, it would be taken as a sign that gold was becoming cheaper, and this would be corrected by putting a little more gold in the dollar. If, on the other hand, prices showed a tendency to fall, this would be accepted as proof that gold was becoming dearer, and a grain or fraction thereof would be deducted from the dollar.

It will be seen that Professor Fisher's object is to stabilize prices and relate the currency and all credit instruments definitely to the prices of commodities, something in itself undoubtedly to be desired. If this system had been in force when prices began to rise, in 1915, instead of a reduction in gold contents of the dollar, or a bonus for gold mining to offset the rising costs, or any other action calculated to maintain gold production, the miners would have been promptly required to give an increased amount of gold for a dollar, and the required amount would have been increased as fast and as long as commodity prices advanced, not only to the extent of closing down the mines, but to the extent of melting down our existing gold coins to make them represent a smaller number of dollars. In other words, the system would continue to put more gold into the dollar, until the point was reached where prices in terms of gold stopped rising.

Merits of the Gold Standard.

Nobody claims that gold is an ideally perfect standard of value, or that fluctuations in prices which are due to fluctuations in the production of gold are not to be regretted. One by one, however, the countries have come to the gold standard, because it has greater advantages, stability included, than any other standard of value ever in use. It has the one great advantage over any theoretical system in its simplicity, and another great advantage in the fact that all the world has adopted it. The primary purpose of a standard is to provide a common basis on which to do business, and the business world is slow to listen to proposals which it does not readily understand, and which it is very sure other countries, for the same reason, will not readily adopt. Granted that it is very desirable to have the whole business world thinking in common terms, when you once have this accomplished, no section of it is likely to be receptive to the idea of adopting a new language of values for itself.

An Inopportune Proposal.

Without going into a further discussion of Professor Fisher's proposal at this time, one comment seems to be pertinent. Since its whole purpose is to stabilize the monetary unit in relation to the level of prices, outstanding indebtedness, fixed incomes, current wages,

etc., it would seem that it should be put into force, if at all, at a time when prices were on what might be fairly called a normal basis, and bore some reasonably just relation to outstanding obligations. Professor Fisher holds that the supply of gold has been increasing unduly for about twenty years, and that even before the war his system was needed to check the abnormal and unjust rise of prices. But now, in about four years, prices have made a further advance of nearly 100 per cent. These prices are unquestionably a hardship to many people, but they are recognized as temporary. If the monetary system is unchanged a readjustment downward will take place naturally, and as the vast body of outstanding obligations in terms of money will be in the main unliquidated, the mischief will be comparatively small. Although deplorable, the injustice to individuals will be regarded as incidental to the war, and the country will escape the odium of having deliberately changed the standard value either for the benefit of a class or for the advantage of the treasury. But to adopt Professor Fisher's plan now would be to fix these wartime inflated prices permanently, and to make certain that all obligations which are stated in terms of money would be liquidated in currency having only the purchasing power of the currency today. We do not believe this is what he intends, for his advocacy of the plan dates back of the period of war inflation, and he was prompted to this advocacy by his sense of the injustice of a depreciating dollar. Nevertheless, he may find himself supported by a company whose fundamental views are quite different from his own.

The Money Question in Politics.

It is a curious thing, the way financial heresies are revived from time to time, with all the fervor that characterize the original discovery of an idea, and restated as positively and prophetically as though they had not been exploded and discredited by experience again and again.

The inflated and depreciated currency of our Civil War times was the source of many ills, but the only thing to do, for the protection of the national credit and for the establishment of a solid financial basis for prosperity, was to keep the nation's promise to redeem the greenbacks in gold. But a formidable opposition party developed, who argued that the greenbacks had never depreciated, but that gold had risen in value, and that nobody but Wall Street was interested in bringing the paper money to a fixed relation with gold. It prophesied that gold payments could not be maintained, and that to attempt it would be to make money scarce and dear, and forbid the development and prosperity of the country. But the resumption of gold payments inaugurated one of the greatest periods of development and prosperity in the history of the country.

The agitation for the free coinage of silver repeated all the catch-words and prophesies of the greenback period. It was plaintively declared that mankind was about to be crucified upon a cross of gold. The country could never know prosperity again unless silver was admitted to be free coinage at the ratio of 16 to 1. But by the time the next election came around the silver question, which had been presented as an issue involving nothing less than the cause of human freedom, was so dead that it was scarcely mentioned.

But through all its defeats and exposures the main fallacy survives. That fallacy is in the idea that the return swing of the pendulum from a period of inflation is the work of bankers and other rich conspirators, and that the maintenance of the gold standard is in the interest of the same class, and opposed to the interests of the masses of the people.

The Fallacy of Cheap Money.

That this idea is lurking now is apparent from signs which appear from time to time. A correspondent bank in a western state, which has been distributing this Bulletin to its patrons, sends us a letter it has received, of which the following is a copy:

"I read with much pleasure the monthly reports from The National City Bank, particularly as it is falling into line and admitting that humanity is greater than money. In the September issue it is wrong when, referring to the national debt and the payment, it says, "when it will take twice as much in labor and commodities to pay a dollar of debt as the Government receives now." This will never come to pass. The debt will be paid on the basis on which it was contracted, and our debt will be so big that there will not be enough gold in the United States to wad a shot-gun with outside of what will be in government banks, and the money will be based on products, etc., and their bank credit value fixed by the Government, and not the speculator.

Here is the old fallacy, that humanity is interested in a dollar of low purchasing power. There are about 16,000,000 life insurance policies outstanding in this country, including membership in the fraternal orders, but not including industrial insurance, and these policies represent promises to pay in the aggregate over $30,000,000,000, in most cases upon the death of the insured to dependent members of his family. Most of these policies are of many years standing, and have been paid for from year to year in money of the existing standard. Under the stress of the war the value of money, unavoidably and unfortunately, is temporarily depreciated, but would it help to elevate humanity above money to make this temporary depreciation permanent, and have all these policies, as they mature, paid in money of one-half the value of the standard in which the contracts were written?

The same question may be asked about the $26,000,000,000 of bank deposits, many of them savings deposits which have been slowly and painfully accumulated, and the millions of like funds in savings and loan associations and real estate mortgages.

These are not the investments of the rich. The rich do not have their wealth in money. They are owners of property, operators of business enterprises, producers of goods and borrowers of money.

Bankers are not gainers by an appreciating currency, or by any condition which works adversely to the interests of the public. Bankers are dealers in credit. They owe and pay to the public the same kind of money they receive, and their loans and deposits are practically equal. They gain by the growth in volume of deposits, which is greatest in a state of general prosperity.

It is a grave mistake to assume that a class which is as intimately related to the business activities of the country as the bankers can gain by any policy which restricts the prosperous development of industry and trade. All interests are best served by policies which promote the creation of wealth throughout the community.

Wage-Earners Interested in a Stable Currency.

The wage-earners have nothing to gain by depreciating the value of money. The imperative demands for labor occasioned by the war, together with the withdrawal of so many men from industry for the ranks of the army and navy, has made it possible for wages to advance with unusual rapidity, but all authorities agree that as a rule it is difficult for wage-earners to better their condition in a period when the purchasing power of money is declining. At such times they must have frequent wage advances to simply hold their own. The greatest gains of the wage-earning class in the paper money period of the Civil War were not made while the money was declining in value, but when it was regaining purchasing power, or, in other words, after living costs had begun to fall. The wage-earner then had only to contend against a reduction of the wage rate, while his income brought him a steadily increasing amount of goods.

The greatest losses to the wage-earning class, however, come from a period of uncertainty and hesitation in the business community, when confidence is impaired, enterprise slows down, construction work ceases and workers by the thousands walk the streets in search of jobs.

Employment and prosperity after the war are dependent upon confidence and good understanding in industry, and an attack upon the standard of value would do inestimable injury to all classes. A period of falling prices has its perils to be foreseen and guarded against, but the conditions represent a normal and necessary reaction from an excessive movement in the other direction, and when the balance is restored, confidence in the natural order is restored, and the way is clear for prosperity on an assured basis. When arbitrary and impulsive legislation is resorted to, there remains no basis upon which to calculate the future.

The Public Debt.

This correspondent lays emphasis upon our prediction that the Government will have to pay its debt with dollars of a higher purchasing value, perhaps two for one, than those with which its expenditures are made. This is true, but only another way of stating the familiar fact that war of itself increases all costs. It would be quite out of the question to plan for carrying on a war at a time when things were cheap, or to keep things cheap during a war. The rise of prices is part of the inevitable cost of war, but it is aggravated by the economic ignorance of the public and the failure to promptly curtail private consumption to make way for the necessary demands of the government. It is because we persistently violate the economic law that the purchasing power of money depreciates so seriously. Ignorance and improvidence are always costly, but they afford a poor excuse for national repudiation.

There is a way, however, by which the people may protect themselves against the cost of bearing and paying the debt after the war is over. They can buy enough of the Liberty Bonds or War Savings Stamps while wages and the prices of products are high, to cover their share of the debt, so that when they pay taxes to meet the interest or principal their payments will pass through the Treasury and back into their own pockets. Now is the time, while money is cheap and wages and products are high, to put enough money into bonds to provide for the debt burden so far as each individual is concerned.

And millions of people are doing it. The debt is being widely distributed, thus making it a certainty that the payments upon it instead of going to bankers and a small group of the rich, will be distributed among the masses of the people. A debt held in this manner is not a serious burden.

The increased volume of long term indebtedness will not affect the gold standard, as no reserves are kept against such indebtedness.

We appreciate the friendly opinion, which has resulted from reading the Bulletin, that this Bank is "falling into line and admitting that humanity is greater than money," and beg to reciprocate with the opinion that the writer is just beginning to understand Wall Street's views.

The Bond Market.

During the interim between the Third and Fourth Liberty loans corporation issues, in which are included rails, public utilities and industrials, aggregated $451,901,000, and municipal issues totaled $123,764,000. Prices have scarcely varied from those prevailing before the Third Liberty loan.

The average price of 40 standard issues, as reported by the *Wall Street Journal* on Septem-

ber 27, was 81.99, compared with 82.80 on August 27, and 88.12 on September 27, 1917.

During the next three weeks bond houses anticipate only a limited inquiry for short term notes and business will probably be at the low ebb of the year, for all the organizations are now engaged in Liberty Loan activities.

During the past month activity has been confined largely to United States Government and foreign issues. The military success in Europe has been followed by advances in foreign government issues, many of which have reached new high prices for the year.

During the middle of the month there were sensational fluctuations in Liberty Bonds as the result of Secretary McAdoo's recommendation relative to tax exemption privileges. These fluctuations resulted in advances of three points on the 4s and 4¼s. Toward the close of the month the market was somewhat reactionary and very quiet except in government issues. Upon the announcement of the new Liberty Loan, trading in the old issues became active.

French 5½s due April, 1919, reached 101⅜, compared with 91½ last December.

August Offerings.

New offerings during the month included:

$33,400,000 Interborough Rapid Transit Conv. 7% Notes, due Sept. 1, 1921, at 98½ and interest, to yield 7.50%.
5,500,000 Monongahela Valley Traction Co. 7% Bonds, due July 1, 1923, at 97 and interest, to yield 7.75%.
400,000 Moran & Co. San Francisco (Packers) 7% Bonds, due August 1, 1921-23, at prices to yield 7.75%.
325,000 Oklahoma Power & Transmission Co. 6% Bonds, due July 1, 1923, at 93 and interest, to yield about 7.75%.
1,500,000 Pennsylvania Electric Co. 7% Notes, due July 1, 1923, at 97½ and interest, to yield 7.75%.
3,900,000 Rochester Railway & Light Co. 7% Bonds, due Sept. 1, 1921, at 98 and interest, to yield 7.75%.
500,000 Stewart Manufacturing Corp. R. E. 6% Bonds, due July 1, 1920-24, at prices to yield 7%
690,000 Western States Gas & Electric Co. 6½% Notes, due August 1, 1923, at 98 and interest, to yield about 7%.

Throughout the month municipal bonds have experienced considerable uncertainty as the result of tax legislation, and as the month progressed bidders at public sales became more cautious, with resultant lower bids.

New municipal offerings included:

$1,725,000 City of Newark, N. J., 5% Bonds on a 4.60% basis.
113,592 City of Paterson, N. J., 5% Bonds on a 4.70%-4.75% basis.
370,000 Chester School District, Pa., 4½% Bonds on a 4.30% basis.
500,000 Hamilton County, Ohio, 5% Bonds, on a 4.75% basis.
135,000 Hanover Township (Luzerne Co.), Pa., 4½% Bonds on a 4.30% basis.
157,000 Indian Grave Drainage District, Ill., 6% Bonds on a 6% basis.
288,000 Middlesex County, N. J., Funding 4¾% Bonds on a 4.55%-4.60% basis.
239,000 Passaic County, N. J., 5% Bonds on a 4.60% basis.
256,000 Palo Verde Joint Levee District, Cal., 6½% Bonds on a 5½%-6% basis.
313,000 Polk County, Iowa, 5% Funding Bonds on a 4.70% basis.
1,000,000 Portland, Oregon, 4½% Bonds on a 4.90% basis.
250,000 Rochester, New York, 5% Notes on a 4.15% basis.
600,000 State of Delaware 4½% Bonds on a 4.55% basis.
320,000 Syracuse, New York, 4½% Bonds on a 4.45% basis.
101,000 Town of Nutley, N. J., 5% Bonds on a 4.75% basis.
100,000 Joliet City School, Illinois, 5% Bonds on a 4.60% basis.
240,000 Stamford, Texas, 5% Bonds on a 5.20% basis.

War Finance Corporation.

The War Finance Corporation since its inception has rendered assistance in several public utility situations. It assisted in underwriting $33,000,000 Interborough Rapid Transit Notes. It advanced about $2,400,000 to the Commonwealth Power, Railway & Light Company in refunding an $8,000,000 note issue. It underwrote about 30% of the maturing $17,000,000 issue of Brooklyn Rapid Transit notes. It advanced $3,235,000 to the United Railways of St. Louis. It assisted to the extent of about $1,000,000 in refunding the New Orleans Railway & Light $4,000,000 note issue, maturing June 1. It assisted the Aurora, Elgin & Chicago Railroad to the extent of about $219.000.

This assistance has relieved the minds of holders of public utility securities, which until assistance was rendered found it necessary to form protective committees.

Essential Industries Corporation.

In order to render further assistance to the public utility situation, the Essential Industries Corporation has been incorporated in New York which, according to newspaper reports, has an initial capital of $3,000,000, consisting of $1,000,000 stock, $1,800,000 ten-year debentures and $200,000 cash surplus. This corporation was formed by some of the leading banks, investment houses and industrial and public utility companies. It is proposed that the corporation will make loans to public utility companies and in turn will avail itself of the provision of the War Finance Act by rehypothecating the notes and securities which it receives from the corporations. It is stated that the capital will be increased from time to time as the business demands to an ultimate amount of approximately $20,000,000. Latest reports advise that one of the first companies to receive aid will be the Portland Railway, Light & Power, and in due course the following companies which are in need of assistance will probably be considered: Atlantic City Gas Company, Paducah City Railway Company, and Alton, Granite & St. Louis Traction Company.

Street Railway Fares.

The American Electric Railway Association compiles a continuous tabulation of increases in railway fares, which up to a recent date shows that 3 cities now have a 10-cent fare, 43 cities now have a 7-cent fare, over 100 cities have a 6-cent fare, and there are other situations where a 5-cent fare exists with additional charge for transfers or increased fares outside of a certain central zone.

According to the calculation, up to September 15, 270 increases in fares had been granted, of which 24 have been granted since July 1, 1918. It further states that about one-quarter of the urban population of the country, or about 12,000,000 out of about 41,000,000 people, are now paying more than the standard 5-cent fare for street car service. In regard to the general question of public utility increases in

rates, another committee located in Washington has recently reported that since January 1, 1918, there have been granted between 600 and 700 rate increases.

Taxing Municipal Bonds.

The pending revenue bill as passed by the House includes for taxation income from municipal bonds and other obligations of States and sub-divisions of a State, when issued subsequent to the passage of this act. Such obligations heretofore have been exempt from Federal taxation, and the new policy raises an important constitutional question.

The Supreme Court of the United States has held repeatedly that the Constitution contemplates the independent exercise by the Nation and the States, severally, of their constitutional powers, and that for either to tax the obligations of the other would amount to power of interference in the exercise of independent and necessary functions.

In the case of Pollock v. Farmers Loan & Trust Co., 157, U. S., where the Supreme Court by a vote of 5 to 4 held the income tax law of 1894 to be invalid, there was no disagreement in the Court upon this phase of the subject. It held unanimously that the Federal Government was without power to tax the obligations of a State or any sub-division of a State, that taxation upon the interest derived from such obligations would operate on the power to borrow before it was exercised and have a sensible influence upon the contract, and therefore a tax upon the income derived from such securities would be a tax on the power of the States and their instrumentalities to borrow money, which would be repugnant to the spirit of the Constitution.

The argument for the constitutionality of such a tax is now based on the recent amendment to the Constitution, which reads as follows:

Article 16—The Congress shall have power to lay and collect taxes on incomes, from whatever source derived, without apportionment among the several States and without regard to any census or enumeration.

This amendment, standing alone, would seem to confer power upon the Congress to levy taxes upon incomes "from whatever source derived," including income from the obligations of a State, but the weight of legal opinion apparently is against this interpretation. It is held in opposition that this amendment was never intended to enlarge the taxing power of the Federal Government, but only to enable it to levy a tax upon incomes derived from real estate or personal property without apportioning it among the States. The Supreme Court had held, 5 to 4, that such a tax could not be levied directly, but must be apportioned among the several States on the basis of population—a method which all agreed was impracticable under latter-day conditions; but the Court at the same time had held unanimously that the Congress was without power to tax the obligations of a State. It is strongly argued that the amendment was directed to the former inability but not to the latter, and that the Congress in proposing the amendment was seeking solely to remedy the effect of the 5 to 4 decision, and giving little or no thought to the point upon which the Court was unanimous.

Practical Aspects of Exemption.

Passing from the legal aspects of the case, there is much to be said in favor of subjecting State and municipal bonds,or the income therefrom, to the Federal taxation. They are subject to State and local taxation, except where made exempt within the State of issue. The amount of such securities outstanding is approximately $5,000,000,000, a very large sum to be exempt from any and all burdens which the National Government may have to assume. Moreover, the amount is increasing rapidly, and the privilege of exemption during a period when Federal taxation is heavy will have a tendency to encourage municipal undertakings on an extensive and possibly an impracticable scale. It is not in the public interest that municipal undertaking should be promoted in such manner. If municipalities are going into all sorts of business enterprises they should be held to account upon business principles, and required to demonstrate their ability to conduct them upon the same basis of costs as that upon which private owners must conduct enterprises of the same kind.

The public is compensated in some degree for the loss of tax revenues by lower interest rates upon money borrowed, but these benefits are restricted in their distribution and do not reach the same people who suffer by the exemptions. Why, for instance, should the farmers everywhere pay higher taxes in order that municipalities should borrow money more cheaply?

On the other hand, we have the exemption of Federal Land Bank bonds for the purpose of promoting agricultural development, an object in itself highly desirable, but which does not require a subsidy. If the Federal and State governments go on creating exemption privileges in this manner the task of distributing the burdens of government will become infinitely complex and troublesome. The benefits of such exemptions are so irregularly and unequally bestowed, and involved in so much obscurity that there is great uncertainty about who gets them. Although exemptions are always granted to favor certain groups of borrowers, the lenders have to take all the criticism and blame. They are invited by legislation and the public authorities to buy the securities upon the terms offered, and might reasonably assume that their action would have public approval, but having made the purchases they are quite sure to find themselves re-

garded as a privileged class. In the interest of good understanding and social peace it is desirable that there shall be no occasion or excuse for grievance of this kind.

Federal Land Bank 5 per cent bonds, as a result, of the exemption provision, are selling at a premium of 4 to 5 per cent.

The Farm Mortgage Bankers' Association of America is vigorously challenging the policy of exempting Federal Land Bank bonds from taxation. Mr. Chassell, its Secretary, in a recent article calls attention to "H. R. No. 8827," a bill now pending to establish personal credit banks, to be operated in conjunction with the Federal Land Banks, all capital employed to free of taxation, and sums up the argument against tax-exempt securities as follows:

The great problem of the present time is to equalize the burden of taxation so that all persons and property may bear their just proportions. If one class of property is relieved from taxation, it to the same extent adds to the taxes borne by other property. The gross amount of taxes raised is not reduced. The expenses of the government must be met. The taxes are apportioned to the persons and property subject to taxation.

A continuance of our present reckless system of exempting securities from taxation will result in the creation of a favored class of tax exempt aristocrats who, while enjoying all the benefits of public utilities and police protection, wil contribute nothing to their maintenance. This situation will also cause serious dissatisfaction among the masses of wage earners and property holders who will resent the injustice of being compelled to carry the entire burden.

It is impossible now and it would be unjust, if possible, to enact any laws depriving securities already issued of their tax exemption features. The remedy will be to enact laws requiring future issues of securities to bear their just proportions of the public burden. Congress can correct the blunders of the past regarding future issues of Federal Land Bank bonds and it can prevent the exemption of Personal Credit Bank bonds. The several states regulate the taxation of their municipal securities and no state will be dependent upon other states or upon national legislation in enacting laws requiring future issues of local securities to bear their fair share of local taxes.

In the State of Ohio, six years ago, an inquiry developed that outstanding securities issued without the state and tax-exempt within the state aggregated $218,754,113, and moved by this showing the legislature repealed the exemption privilege as applied to future issues.

STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS SEPTEMBER 27, 1918.

(In Thousands of Dollars)

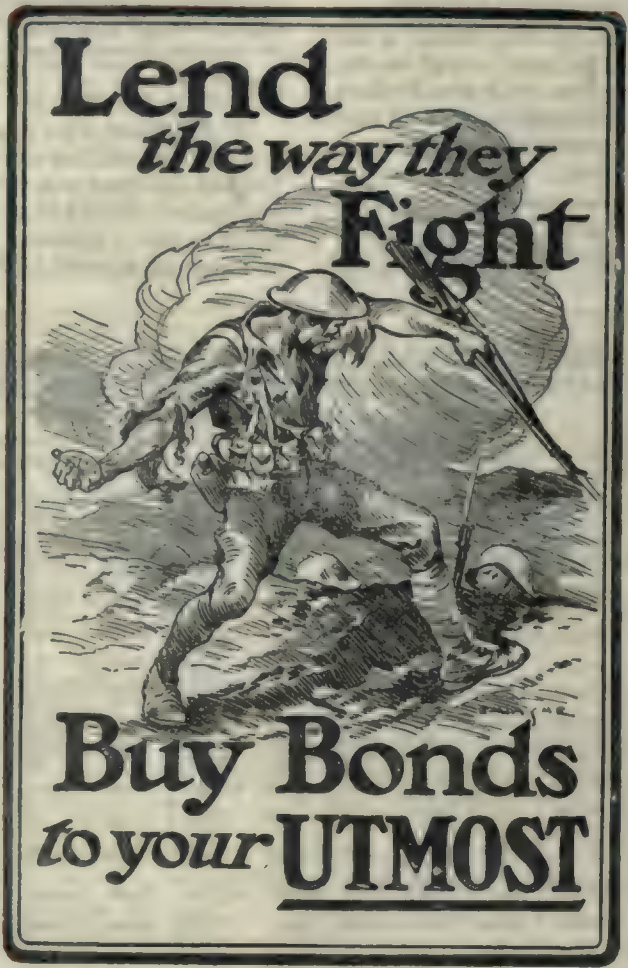
RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco	Total
Gold in vaults and in transit	[illegible]	273,296	265	27,862	6,198	6,733	26.109	1,067	8.179	216	7.097	9.567	[illegible]
Gold Settlement Fund	67,241	14.760	[illegible]	70,877	28,088	17,042	72,022	16.812	22,504	27,783	4,392	37,843	437,319
Gold with foreign agencies	408	2.011	408	525	204	175	816	233	233	291	204	321	5.829
Total gold held by banks	71,279	290,067	58,329	99,264	34,499	23,950	98,947	18,112	31,216	28,290	11,693	47,731	813,368
Gold with Federal Reserve Agents	58,925	286,671	110,208	153,479	47,293	36.340	206.111	56,615	29,378	57,489	24.286	94,936	1,161,731
Gold Redemption Fund	5.017	14.893	[illegible]	1.231	614	[illegible]	5.577	2.820	2.900	1,247	2.146	510	45.714
Total gold reserves	135.221	591,631	174,037	253,974	82.397	63,549	310,635	77,547	63,494	87,026	38,125	143,177	2,020,813
Legal tender notes, Silver, etc	2,589	43 931	791	310	628	183	1.272	705	64	142	549	199	51,363
Total Reserves	137,810	635,562	174,828	254,284	83,025	63,732	311,907	78,252	63,558	87,168	38,674	145,376	2,072,176
Bills discd: Sec by Govt. war obligations	71,246	551,288	86,718	50,507	48.751	45,133	169,044	50,293	25,262	28,344	30,815	51,042	1,221,533
All other	15.594	113.074	21.112	[illegible]	18,921	31,051	72,618	[illegible]	41,940	45,460	25,193	45,664	491,897
Bills bought in open mark't	35.842	155.575	7.976	32.016	4.586	6.104	20.272	2.000	133	136	1.300	22.451	283,391
Total bills on hand	122,682	832,937	115,806	116,995	72,258	82,288	261,934	79,181	67,335	73,940	57,308	119,157	b 2,001,821
U. S. Governm't long-term securities	538	1,410	1,348	1,291	1,233	601	4,519	1,153	116	8,868	3,977	3,461	23,545
U. S. Governm't short-term securities	1,416	20,099	4,257	3,760	1,510	1,991	5,112	1,321	974	1,344	1,152	1,162	50,098
All other earning assets						71						31	102
Total Earning Assets	124,636	869,446	121,411	122,046	75,001	84,981	271,565	81,655	68,425	84,152	62,437	123,811	2,080,566
Uncollected Items (deduct from gross deposits)	40.973	155,649	71,399	56,364	45,540	32,643	73.153	50,483	17,884	54,521	17,328	33,511	649,448
5% redemption fund against F. R. bank notes	31	1,024	200	62	50	47	305	22	50	412	144	97	2,447
All other resources	1,052	2,000	1.643	569	929	789	1.300	565	156	945	1.635	1,254	12.858
TOTAL RESOURCES	304.505	1,654.681	369.481	433.325	204,536	182,192	658,230	210.977	150.103	227.198	120,218	302,049	4,817,495
LIABILITIES													
Capital Paid in	6,580	20,184	7,353	8.785	3.996	3,143	10.906	3,732	2,896	3,600	3 104	4,523	78,802
Surplus	75	649			116	40	216		38				1.134
Government Deposits	22,388	24,645	14,020	22,586	8,103	12,370	22.513	9,560	14,587	11,433	10,338	15,080	191,623
Due to members—reserve account	92,044	665,021	98,008	109 992	49.827	39,284	202,039	52.234	44,971	75.658	34.424	70.988	1,535,490
Collection Items	32,062	119,441	46,436	59,982	35,198	27,720	50,972	43,011	9,722	29,070	11,006	20,439	485,059
Other deposits incld'g For. Government credits		99,007		225		34	2,026	412	21			2.590	104,385
Total Gross Deposits	146,494	909,114	158.464	192,855	93,128	79,408	277,550	105,217	69,301	116,161	55,768	113,097	2,316,557
F. R. Notes in actual circulation	148,053	699,650	199,772	229,082	105,499	97,941	358,816	100.170	76,421	97.350	57.191	180.381	a 2,349,326
F. R. Bank Notes in circulation, net liability	684	11.777	2.109	1.083	151	615	6,000	436	73	7,927	2,969	1,935	35.819
All other Liabilities	2.619	13.307	1,783	2.520	1,646	1,045	4.682	1.422	1,374	2.160	1,186	2,113	35.857
TOTAL LIABILITIES	304,505	1,654.681	369 481	433.325	204.536	182.192	658.230	210.977	150,103	227,198	120.218	302,049	4,817,495

(a) Total Reserve notes in circulation, 2.349.326.

(b) Bills discounted and bought: U. S. Government short term securities; municipal warrants, etc.: 1—15 days 1,337,362; 16—30 days 192,455; 31—60 days 303,185; 61—90 days 172,114; over 90 days 46.874. Total 2.051.990.

Ratio of gold reserves to net deposit and Federal Reserve note liabilities combined 63.4%. Ratio of total reserves to net deposit and Federal Reserve note liabilities combined 77.0%.

DISCOUNT RATES: The discount rates of each Federal Reserve Bank approved by the Federal Reserve Board, remain unchanged from previous publication, with the following exceptions: Within 15 days Atlanta 4¼%, Minneapolis 4¼%, Dallas 4¼%. 16-60 days, Kansas City 5%. 61-90 days, Kansas City 5%.


Lend
the way they
Fight
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THE NATIONAL CITY BANK OF NEW YORK

1918

Economic Conditions
Governmental Finance
United States Securities

NEW YORK, NOVEMBER, 1918.

Approaching Peace.

THERE was little in the war situation last spring or even in midsummer upon which to base hopes of early peace, and it is difficult to realize that in three months the situation has been so completely reversed that peace with victory is in sight. But on both sides it was recognized from the first that if Germany was to win after the entrance of the United States she must do it in the summer of 1918. When Germany early in 1917 decided to defy the United States and carry submarine warfare to the limit, she staked everything on the expectation that England would be made to sue for peace before an effective American army could be placed on the front. When the spring of 1918 opened it was evident that the starvation plan had failed and that the German armies must achieve a victory in the next few months or the war was lost.

The supreme effort was made, and up to the middle of July German hopes were high, but when the tide turned there was no room left for German hopes in this war. Germany had made her last throw and lost. She could not recover this year and next year the situation would be more desperate.

The German command knew it and Germany's allies knew it. The elements of dissent, silent while Germany seemed invincible, quickly made themselves felt, and when a powerful thrust on the Grecian front separated the Bulgarian army from its Austrian ally, Bulgaria surrendered. This meant the doom of Turkey, for isolated from her allies and with her own armies beaten, that country could not hope to hold out. The opening of the Dardanelles would give the Entente allies access to the Black Sea and probably enable them to reinstate Rumania and Russia. The new situation brought the southeastern war front back to the Danube, raised definite hopes in all the Slavic peoples of the Hapsburg empire, and brought that empire face to face with dissolution. It asks for peace because it can fight no longer.

Germany's Situation.

It is not questioned that Germany is yet a powerful nation and able to put up a strong military defense at her borders. But why should she spend her remaining strength in hopeless defensive fighting? The blockade will become tighter than ever. With Austria-Hungary out the Italian armies will be released for use against Germany. The German allies in Russia will be ousted from power, and not only Russia eager to recover her Baltic provinces but Poland in arms for her independence, will confront Germany on the East. The economic pressure alone will be unbearable.

Such advices as come out of Germany through the neighboring countries indicate that the internal situation is already very threatening. The enormous expansion of credit which has taken place has been based upon the expectation of victory, with indemnities and terms which would open a great future to German commerce and industry. Now there is faced the payment of indemnities, reduction of the empire, an appalling burden of taxation, and a most unpromising prospect for foreign trade. Under these conditions the strain upon both public and private credit is very great. Alarm and timidity spread, money is hoarded, cohesion is lost, and society tends to dissolve into its individual elements. The situation becomes that of every man for himself, with the understanding that the devil will get the hindmost.

It is not too much to say that the bitterest enemies of Germany, those who wish to see her utterly crushed, are hoping that she will elect to make defense to the last. The less she can save from the wreck, the better they will be pleased. On the other hand the leaders of industry and finance in Germany must feel that the military authorities have been in charge of policies quite long enough. The former are looking forward to the task that will fall to them when the war is over. It is safe to say that they are more concerned to have assurances regarding supplies of raw materials in the future, and other trade relations with their present enemies, than for a protracted defense. These are the matters of chief importance to Germany now, and it is not strange that she should want a conference at which they can be discussed.

Terms of Peace.

There is one thing which the German government and German people will have to make up

their minds to promptly, and that is that the terms of peace will not be based upon the theory that Germany has been fighting a defensive war. That fiction is an insult to the peoples with whom they have to deal, and any suggestion of it is enough to end negotiations. At the beginning of the war, there was some standing for the view that the outbreak was the result of the strained situation which had existed in Europe for a long time, and that responsibility was therefore divided and could not be exactly allocated. There was much of that sentiment in this country, which was reluctant to believe that Germany had deliberately seized upon the Austrian assassination as an opportunity to precipitate war. But the revelations of the Potsdam conference, the statements of the German Ambassador at London and Dr. Muhlon, and other like evidence, have swept away this charitable presumption of innocence. Germany and Austria stand at the bar as defeated conspirators against the peace of the world.

Mr. Balfour has summarized the necessary terms of peace in the words, "Restitution, Reparation and Guarantees for the Future." Restitution means giving back what has been taken, reparation means making good the losses wantonly and unlawfully inflicted upon individuals and public property; it might justly include more, but complete reparation is impossible. Guarantees as to the future mean changes in the political constitutions of the two empires and a breaking up of the solid block of Central Europe now included in their dominions, so that nationalties over which they have never had a just right to rule will be released from their authority.

Constitutional Changes.

It is urged that the German people should be accorded the right of having a government of their own choice, without dictation from outside. Upon general principles this cannot be gainsaid and the only justification for interference is that a government may be assured which is unlikely to make another such assault upon neighboring countries. Democratic institutions in their very nature are unfavorable to secret plotting and surprise attacks. If the Government of Germany is made fairly responsive to public opinion the people will not be likely to surrender their power, and there will be no such offensive exercise of power as has characterized that Government in the past. The German people have come from a liberty-loving ancestry. Their primitive institutions were democratic in character, and have been the basis of the free institutions of the Anglo-Saxon race. The development, in the direction of parliamentary institutions was under the insular conditions of England, and toward autocratic institutions in Germany is traceable to their immediate contact with surrounding foes throughout their history. Under the autocratic leadership, which has finally brought them to disaster, they became a great nation, and they were not very unlike other peoples in their disinclination to change that which they believed to have served them well.

The Present German Government.

The German Empire is a confederation of 25 states and one imperial territory, Alsace-Lorraine. Prussia is the dominant member and the King of Prussia is by that fact Emperor. The upper legislative body, known as the Bundesrat, is a Federal Council, composed of representatives of the ruling powers of the states, that is to say, of the royal and princely families. The members are appointed and instructed by the rulers. There are 61 members of the Bundesrat, of which Prussia has 17, and these are appointed by the Emperor as his representatives. He also appoints 3 for Alsace-Lorraine. The approval of the Bundesrat is necessary to all legislation and its proceedings are in secret.

The popular legislative body is the Reichstag, a body of 397 members, for the election of which all male citizens aged 25 years or over may vote, but there has been no re-arrangement of districts since 1871, with the result that the industrial districts are inadequately represented. The Reichstag is not as powerful a body as the House of Representatives at Washington or the House of Commons, as the executive authority is less dependent upon it. Appropriations for particular purposes once made are automatically continued from year to year. The Reichstag has no power over the ministry, as in Parliament, and none over the Emperor, who makes the ministers. Even the Bundesrat was not consulted upon the declaration of war. The two Emperors at Berlin and Vienna put their countries into this war by their own will and authority.

The government of Prussia, the dominant state in the empire, is even more autocratic than that of the empire. The legislature is the Landtag, the upper chamber of which is composed of the nobility, with hereditary privileges and titles, or indebted for them to the Emperor. The lower house is elected by manhood suffrage, but under a system which in this age is remarkable. The voters of each electoral district are divided into three classes according to the amount of taxes they pay, and these groups are entitled to elect, each for itself, an equal number of representatives. The result designed and accomplished is that the small group of the heaviest tax-payers has as large a representation in the House as the great body of voters in the third class. It is a virtual nullification of the doctrine of one man one vote. Finally, the King has an absolute veto upon all legislation.

Already measures are under way, which, if completed in good faith, will radically change these features.

German Territorial Losses.

The hardest feature of the peace terms will not be the changes in the form of government, but the loss of territory and population. It will

be hard for Germany to give up Alsace and Lorraine, particularly the latter, in which the chief iron and steel development has taken place since 1870, but it will be harder still to give up the provinces of Silesia and Posen, and perhaps West Prussia, on the east, which belonged to the old Kingdom of Poland. The population of the first two is chiefly Polish, and this is largely true even of West Prussia, the capital of which, Danzig on the Baltic, is the natural port for all of Poland. The difficult feature of this situation is that the province of East Prussia, lying east of West Prussia, has for the most part a German population, and naturally should remain with the German nation.

But even after these terms, which are foreshadowed in President Wilson's notes, have been imposed, Germany will remain next to Russia the most important country of Europe in area of territory and in population, and, of course, far ahead of Russia in industrial importance. The provinces she seems fated to lose have a population of about 12,000,000, and she will have not far from 60,000,000 remaining, a compact and homogeneous body of industrious, frugal and efficient people. Besides these there are 7,000,000 to 8,000,000 people in the German provinces of Austria who will be natural allies, and in the break-up of the Austrian Empire and the wreck of imperial houses may conclude to cast in their lot wholly with Germany. If this should be the outcome, Germany would have not far from the same population as before the war, and composed wholly of people of her own race and having their natural home within her boundaries and under her institutions.

Dismemberment of Austria-Hungary.

The results of the war to the Austro-Hungarian Empire will be far more serious, because that Empire is a conglomeration of races now eager for independence or to be attached to adjoining nations with which they are racially affiliated.

According to census returns of 1900 there were at that time about 45,500,000 people in Austria-Hungary, divided among races as follows:

German		11,300,000
Magyar		8,751,877
Latin:		
Rumanians	3,030,442	
Italians	727,102	
		3,757,544
Slavic:		
Poles	4,252,483	
Ruthenians	3,811,017	
Slovenes	1,192,780	
Servians and Crotians	3,442,129	
Czechs and Slovaks	7,975,038	
		20,673,447
Other nationalities		915,604
		45,398,472

The Slavs of the several groups, including the Czechs, came to their present homes from what is now Russia, settling in territory vacated by Germanic tribes as the latter moved westward. The Magyars, or Hungarians, also came from the present Russia, but were originally from Asia. The Rumanians have a strong Latin strain, derived from Roman colonists of the period of the Empire. The kingdoms of Bohemia, Poland and Hungary were independent for centuries, but the royal families intermarried with each other and with the Hapsburgs, the royal house of Austria, which was also for a long time the imperial house of Germany. The wars with the Turks forced the countries into close relations, and finally the Bohemian Kingdom came fully under the domination of Austria. The Hungarians have maintained their autonomy to a greater extent, but have been united with Austria in a dual monarchy, having a monetary system in common and common control over the army, navy and foreign offices. This combination of Germans and Hungarians has ruled the Empire. It has not been a happy family, but prior to this war the hopes of the various submerged elements had been for a federated empire, in which they would be allowed complete local autonomy. It is probable that if their wishes in this respect had been met in a liberal spirit the interests of the entire population would have been served more effectually than by the dismemberment which now seems inevitable.

The Bohemian statesman, Polacky, in 1848 said that if there was no such empire as Austria it would be necessary to create one, meaning that for that part of Europe a composite empire was the logical organization, but he gave warning that it must be a federation based upon racial equality or it would not stand.

Internal Weakness.

But neither the Austrian nor German governments have been successful in developing a feeling of loyalty and affection in these racial groups within their territories. The latter have not only maintained their racial identity but their old national feeling, and regard themselves as subject peoples. They hunger for freedom; they are reproached as traitors but instead of denying it they avow it. Did not the central powers know that this discontented population was a weakness in their midst? If not, their blindness is now evident and is one of the lessons of the war. A nation which neglects to satisfy the normal aspirations of its people, or which fails to win their loyalty, neglects or fails at its peril. These nationalities want nothing but independence now, but possibly federations may be arranged in after years if economic interests will be served thereby.

The answer which President Wilson has given to the Austro-Hungarian Government shows that this country is committed, with its Allies, to the erection of a Czecho-Slovak state, composed of Bohemia and Moravia, which had a population in 1900 of 8,700,000. The provinces of Austria and Hungary on the south, inhabited by Jugo-Slavs will probably be incorporated in a greater Servia, the Rumanians of Transylvania, now a part of Hungary, will probably be attached to Rumania, while Galicia, now a part of Austria,

will doubtless be returned to Poland. Whether the alliance of Austria and Hungary continues will depend upon agreement among themselves, but both of these states will be shorn of their subject races in so far as the latter can be grouped by themselves. The Italian irredenta will be returned to Italy. Both Austria and Hungary, under the terms stated, will lose their important ports on the Adriatic, Trieste and Fiume. This is a serious loss, and has its regrettable side, for the same reasoning which would claim for Poland a port on the Baltic would claim for Austria and Hungary a like opening to the Adriatic. Possibly the commercial needs may be met by treaty.

The Republic of Poland.

The ancient nation of Poland, which the Allies have determined to re-establish, was dismembered in the latter part of the eighteenth century, and divided between Russia, Germany and Austria. Catharine of Russia and Frederick the so-called Great were the chief conspirators. Maria Theresa, of Austria, had the grace and conscience to publicly object, but finally took her share, justifying herself by the plea that if she did not Russia and Germany would make the division between themselves, and that the importance of Austria would be relatively diminished. It was said that she even shed tears, at least figuratively speaking, over the hard fate which compelled her to participate. Later, when under somewhat similar circumstances Austria made another annexation, Frederick made the caustic comment that Maria Theresa was "always weeping and always taking."

Although about 140 years have passed since the dismemberment occurred the national spirit is as strong with the Polish people as ever it was, despite the most strenuous efforts of the governments under which they have lived to suppress it. These efforts have been more determined on the part of Germany and Russia than on the part of Austria. The irrepressible hopes of the Polish people have kept alive all these years the question of a possible re-establishment of their national identity. The subject has been a more vital one to Germany than to either Austria or Russia. Bismarck discussed it in his autobiography, concluding that "any arrangement likely to satisfy Poland in the provinces of West Prussia and Posen and even in Silesia is impossible without the breaking up and decomposing of Prussia."

The Polish people number approximately 30,000,000, compactly located, but there has been an infiltration of Germans on the west which may be a factor in fixing the border.

German Ambitions.

The war thus ends with a complete and apparently final frustration of the ambitions which Germany has labored for years to realize, to wit, the extension of German influence over the Austrian Empire, the Balkan countries and Turkey and into the heart of Asia, not to speak of an enlarged frontage on the North Sea and a position face to face with England on the Channel. She was making steady and rapid progress with her policy of penetration. Only a few weeks before she embarked on this insane war England had withdrawn all diplomatic opposition to the Bagdad railway project. But the opportunity to coerce Servia was a temptation which could not be resisted, and now all the Slav populations are to be released from German dominion and a complete barrier of new states raised between Germany and Russia and Germany and Asia.

As already indicated Germany will remain a great and powerful state; this she has a right to be by virtue of what the German people are in themselves. The German nation loses so much of its power as it held by dominion over other peoples, who were dissatisfied under its rule and wanted to be free. It has lost the position and power by which it hoped to extend its rule over yet other unwilling populations. It has furnished another impressive object lesson, let us hope the last that will be needed for the restraint of nations, of how egotism overleaps itself and falls in humiliation and ruin.

Germany's Future.

But the German people need not despair. They will be wise if instead of lamenting the number of their enemies and the bitterness of their fate they ponder over the reasons why the whole world rendered judgment against them, and why a nation so far removed and naturally pacific and friendly as the United States took up arms against them.

Besides the losses of territory and population, and the losses of men and property in the war, they will have other costs and losses to face. Nevertheless, the German people have great resources, not only in wealth but in character. It would be a mistake as grievous as some of those committed by Germany for us to conclude in the anger of conflict that all the good we used to see in the German people was illusory. We have the German stock among us and plenty of it in our armies. There is nothing illusory about the loyalty of the great body of our people of German blood or about the fighting spirit of their sons. They are with us and of us, and we cannot deny the qualities of the people from whom they sprung. We cannot forget and would not belittle the contributions of Germany to civilization; we would only ask that Germany return to her true ideals and give to the world the service of which she is capable.

It has been often said in the latter part of the war that it was useless to try to make a distinction between the German people and the German Government, because the latter was fully supported by the former. It was, however, distinctly the German Government, and not the German people, who precipitated the war; President Wilson has recognized this in demanding that the form of the German Government be changed

to make it more truly representative of the people, as a measure of security to other countries. Moreover, it must be considered that once a nation is at war, it is very difficult for dissenting opinion to make itself known or felt. "My country; may she ever be right, but, right or wrong, my country!" is a sentiment strong in America as well as in Germany. We must be slow about uttering lasting condemnation upon a people for faith in and loyalty to their government. It may be a misguided patriotism, but it is a patriotism that has been too often eulogized to be unpardonable. Nowhere is there much patience with the "conscientious objector" to the policies of the Government in time of war.

The Community of Nations.

The German people must suffer deeply for the wrongs they have committed, but no government or generation can sin away the rights of a people, including the rights of their children of future generations. The settlement should be one that is just and that gives the German people a chance and a hope for development and prosperity in the future. They must make reparation, but for the mere purpose of enabling them to do so, if for no other motive, they will have to be given a chance to revive their industries and trade. Moreover, there is a broader reason for desiring the rehabilitation and prosperity of Germany, and that is that not only will they not be inimical to the prosperity of other nations but helpful thereto. If we hope for no more wars, let us get away from the idea that the prosperity of one nation is injurious to other nations. It is no more true of nations than of individuals, and it is false and mischievous everywhere. Nine-tenths of the ill-feeling which disturbs society is due to it. Wealth is not accumulated by getting it away from others but by industry and genius in creating new wealth, and new wealth by whomsoever created is beneficial to all. The purchasing powers of every country are in its own powers of production, and the greater these are the greater its consumption and exchanges will be.

The German people, rid of their imperialistic ambitions, are entitled to a place in the family of nations upon their merits as wealth-producers. They are able to contribute to the common fund of scientific knowledge which is the basis of the world's industries. The more rapidly we can unlock the secrets of nature the greater will be the output of industry and the more bountiful the stream of comforts and benefits flowing out into the markets and back into the homes of all the people. In this day in whatever part of the world a discovery or improvement is made it is quickly put into use in all countries. The more competent minds there are at work on all problems the better; the more rapid advancement there is in industry everywhere the better, and back of all industrial progress there must be hope, ambition, energy, rewards, prosperity.

Financial Affairs.

The actual figures for the Fourth loan have not been announced at this writing, but it is known that every district filled its quota with something to spare, which means that in the aggregate there is a handsome oversubscription. Furthermore, the loan has been taken by the public in a perfectly bona fide manner, it being unnecessary for the banks to take any unsubscribed remainder. This is as it should be, and is particularly gratifying in view of the fact that within the five months preceding this offering of $6,000,000,000, $4,150,000,000 had been subscribed and paid upon the Third Liberty loan, besides about $2,000,000,000 of federal taxes.

The loan went slowly at first, considering its size, more than one-half being subscribed in the last week. The reason obviously was that corporations and individuals of large incomes did not see their way to subscribe as freely as for the earlier loans, on account of the increased taxation for which they were obliged to make provision. This was foreseen by everybody at all familiar with the situation. The following paragraph from a letter received by this Bank before the loan campaign began describes the position of many business concerns:

> September 9, 1918.
>
> "Replying to your favor of the 7th instant, initials DF, regarding subscriptions to Fourth United States Liberty Loan, we appreciate your offer to help us carry the bonds, but wish to say that the law as now proposed, will make it absolutely impossible for a corporation in our class to subscribe. The law as proposed will conscript more than the ordinary available liquid profits of any corporation and impose a penalty on paper profits if not distributed as dividends. All corporations are requiring increased capital to carry the increased amount of their book accounts and the increased value of their working inventories. It is quite certain that there will be a tremendous shrinkage in the more or less fictitious values of said inventories."

As we stated last month the question was not whether it was the best policy to take from the rich by taxation or by loans, but whether they could respond to both demands to the extent expected of them. The weakness of the revenue bill as it passed the House was in not having enough general taxation. All classes are prosperous enough to stand more taxation. The private expenditures of the country are on an enormous scale, and are not only impeding war work but producing an embarrassing state of inflation.

In the last days of the campaign the evident need for large subscriptions brought round amounts from thousands of corporations and individuals who had held back because they questioned the prudence of "doubling up" in the face of the impending taxation. The taxes will not fall due until next year, and with the turn the war has taken perhaps loans will not have to be so heavy next year. They have left next year's problems to next year, and are putting this year's profits into bonds, trusting to luck for the means of paying the taxes.

Future Liberty Loans.

If terms of peace are agreed upon at an early day the Government's construction and manufacturing program will be considerably curtailed,

but expenditures upon the army and navy will necessarily remain very large. It must be remembered that the proceeds of the Fourth loan have been to a great extent anticipated by the Treasury and already expended, the seven offerings of Treasury certificates having brought in \$4,665,320,000. It is evident therefore that a great deal of money will yet have to be raised for the war, both on our own account and for our allies.

It is not improbable that the European governments which have been borrowing here will want to continue doing so for some time after they have done purchasing war materials. They must all make heavy importations of food at least for a year to come, and they will also want quantities of raw materials for manufacturing, and probably merchandise, and equipment. These purchases cannot be made unless credits are created here, and of course it is to the interest of this country that such purchases shall be made, in order that the business situation shall be sustained in the critical period when the war business is disappearing. If our government should continue making loans for this purpose it will have to cover them by borrowings to an equal amount.

Banking Conditions.

On June 21, the twelve Federal reserve banks held bills discounted to the amount of \$1,086,023,000 and Government securities to the amount of \$259,066,000. On October 25, these items had risen to \$1,944,787,000 and \$450,311,000. Their consolidated cash reserve against note and deposit liabilities on June 21 was 61.7 per cent. and on October 25 it was 49.6 per cent. The member banks reporting to the Federal Reserve Board held \$1,582,211,000 of Government securities on June 21, and \$2,539,109,000 of such securities on October 25. Their loans and investments outside of war and Government financing were \$10,328,617,000 on June 21, and \$10,507,763,000 on October 25.

This is inflation at a galloping pace. The growth of loans means more than one-time use of the new purchasing power, for the payments return to the banks as deposits in other accounts, and become purchasing power to the new owners, and so are passed on indefinitely until someone checks on them to pay a debt. An attempt to use more purchasing power, if unaccompanied by a corresponding increase of productive capacity, means higher prices; in other words, inflation. There will be more of it when subscribers to the Fourth Loan borrow to make their payments. It is not pleasant to watch it, but we should watch it. We have not gone as far as Germany but Germany never travelled faster.

After the war, earnings will have to be diverted from productive use to sponge out this indebtedness, a payment without return because the return has been had.

Business Prospects.

The rapid development of peace prospects has brought the problem of post-war readjustment into immediate view. The first effect is seen in a spirit of hesitation. Buyers are disposed to hold off on purchases and sellers are more inclined to let goods go. The grain markets show weakness, and it is clear that peace is considered a bear argument in the trade. In the long run peace undoubtedly will bring lower prices for all foodstuffs, but it is difficult to see how it can do so in the near future. Early in the war it was considered that the opening of the Dardanelles would release stores of Russian grain, but Russia has no stores to spare now. Moreover, Russian conditions are so unsettled that it is doubtful if that country will have any grain to export next year. As soon as peace is established, Central Europe will want foodstuffs in large quantities. All the countries that are on rations will want liberal supplies, and neither Europe nor America can produce any more food before next Summer. Australia has two crops of wheat in store but the transportation problem will be troublesome for more than a year. Argentine supplies have been pretty well moved out; the new crop, upon which cutting will begin in about a month, promises about the same yield as last year's. Food Commissioner Hoover, who is thoroughly informed, says that it is even more necessary to conserve food supplies during the ensuing year than it was last year.

Cotton and Woolen Goods.

In cotton and woolen goods the situation is somewhat the same as in foodstuffs, although the demand for clothing is not so imperative as for food. Central Europe is very short of clothing, as accounts of the spinning of paper and nettle fiber show. The United States has control of present stocks of wool in this country and has sent a commission to Argentina to buy the crop now coming on that market, but if it does not call the new classes of recruits, it will hardly want all the uniforms it has planned to make. The trade is confident that the civilian demand will take all the wool the Government releases, and no doubt it will, at a price. Will the civilian demand, strengthened by the markets of Central Europe, sustain prices at or near the present level? The best authorities think no great decline is probable in the coming year. The British Government is in contract for all the wool produced in her dominions for a period including one crop after the end of the war, and as her territories produce nearly one-half of the world's wool, she is in position to sustain the price and has an interest in doing so.

It has been constantly assumed that the end of the war would bring higher prices for cotton than it has yet reached, but of late the contrary view has obtained considerable support. The price is now about five cents per pound lower

than several months ago. There can be no doubt that cotton goods are very much wanted all over the world, but whether or not present prices discount this demand is a question for experts. It probably depends in part upon general industrial conditions.

Although the Government is going ahead with contracts for army supplies, it has held up plans for construction work in some instances and has cancelled some contracts for distant deliveries. The ship-building program has been modified so that no more wooden ships will be built, and the expansion of yard capacity is probably over. Some $60,000,000 of contracts for steel transports have been cancelled.

Industrial Situation.

Business prospects hinge of course upon the question of employment, and that in turn depends upon the urgency of the consumptive demand for products. It is beyond question that there is plenty of work at home and abroad which ought to be done; the whole world is short of consumable goods and behind on construction work. The question is, will private consumers buy freely and private enterprise go ahead freely upon the present level of prices, in view of the fact that prices are sure to make important recessions after all the men now in the armies and war industries are returned to peace work?

The war work goes ahead regardless of cost, but private consumption is reduced by high prices and private investors will hesitate to place capital at high initial cost, when there is a probability that the same property can be obtained later at a cost materially less.

For example, building operations have been curtailed for several years, and no doubt a large amount of such work would be done, if prices were normal. But will an investor build at the present level of costs, when by waiting a year or two, he may be able to do so at 20 to 40 per cent lower cost? Real estate men have confidence in active building operations. They are sure dwelling houses are needed and think there has been an accumulation of capital which will be so used. They look for a considerable conversion of Liberty Bonds into home properties. They also look for activity in office-building construction. It is probable that the realization of their hopes depends mainly upon the general state of employment and business, and that is the case in many lines.

Favorable Factors.

What are the conditions which are definitely favorable to trade and industry? In the first place agriculture is prosperous and quite certainly will be for the year to come, and this means buying power in the largest single group of the population. The foreign demand for all raw materials should be large, which includes the metals, copper, lead, zinc and silver, and the districts in which these are produced should be busy. The demand for cotton and cotton goods should be such as to make the South prosperous, and to give employment to the mills in all sections. Ship-building presumably will continue throughout next year, and this will not only give employment in the yards but furnish an outlet for steel. The agricultural implement business will also have a large export trade, and will use an important amount of steel. The automobile industry showed no signs of being affected by the rise of materials, and only asks to have the latter supplied. Machinery of many kinds will be wanted for replacement abroad. Lumber and builders' hardware and steel and railway equipment presumably will be wanted abroad for rebuilding, but the extent of this demand cannot be calculated. Speaking generally, foreign trade should be better than before the war, if means are found by which would-be customers can make payment. It may as well be recognized at the outset that this question of how payment can be made is a vital one.

Foreign Trade.

Numerous conventions, associations, committees and officials are busy discussing and planning to increase our export trade, and we are with them in their efforts, but almost nothing is said about this fundamental matter of how our foreign customers are to make payment. This is not a question of their solvency, or of whether sales shall be on 90 days or 6 months time; it is the question of the equilibrium in foreign relations, or in bankers' language, the question of "exchange." The United States has changed over from being a debtor nation to the position where it will have a large balance of payments in its favor. This means new relations and obligations, and has direct bearing upon foreign trade.

The loans of the United States Government to foreign Governments now amount to about $7,000,000,000, and before this lending stops it is probable that including bank loans the total indebtedness to this country will be fully $10,000,000,000, upon which the annual interest charge will be over $400,000,000 per year. Moreover, we have bought back most of the American securities that were held abroad. We have nearly always had a merchandise trade balance in our favor, and for the ten years immediately preceding this war it averaged $498,000,000 per year, but this was practically counterbalanced by the charges and services of various kinds for which we owed Europe. Important among these items were interest and dividend payments and shipping charges on our overseas trade.

Now we are proposing to have a great fleet of our own, and so cut down our payments of freight charges; the interest and dividend payments will be largely reduced, and on the other hand we will have this new offset of $400,000,000 to $500,000,000 per year on interest account.

The reader will possibly say that this makes the future look very rosy, but we would beg him to consider this favorable situation with relation to the plans for enlarging our export trade. How will our foreign customers make payment for even such a merchandise trade balance as we have had in the past, not to mention a larger one? They cannot pay it in gold. The total production of gold in the world outside of the United States is only about $400,000,000 per year, and it is perfectly certain that foreign governments will not allow it all to be sent to the United States for goods.

Unbalanced Exchanges.

We have seen within recent months a general state of confusion in the foreign exchanges because gold was not available to settle balances. Even now a resident of Canada who has a payment to make in the United States must pay about 2 per cent premium to obtain the means of doing so; that is to say, a bank draft on New York or any of the financial centers on this side of the line costs a premium of 2 per cent. This is because there is a large balance of trade in our favor, and the Canadian Government does not permit the shipment of gold, and for the time being we cannot take Canadian securities because our own Government is wanting all of our lending power.

On the other hand, it costs about 5 per cent in New York today to get a draft on Buenos Aires, and the reason is that our Government does not permit shipments of gold. The situation would be much worse but for the fact that the Argentine Government has granted a large credit in Buenos Aires to the United States Government, which the latter is selling to American importers who have payments to make at Buenos Aires. The situation between this country and Spain has been much worse: a few months ago it cost in New York a premium of 50 per cent upon the face of a Spanish invoice to get a draft on Madrid. This situation has been helped by an operation similar to that in Argentina, to-wit, by a loan of credit negotiated through Government channels.

As between Italy and the United States, the situation has been still more out of joint. It has been costing 100 per cent premium in Italy to buy a draft on New York; that is to say, a would-be buyer of American goods who had an Italian bank deposit at his command would have to pay 100 per cent above the normal par of exchange to get his Italian credit converted into an American credit. It meant doubling the cost of American goods to him. This again was because the balance of payments was heavily in favor of the United States, and neither gold nor securities could be used to settle it.

It is, of course, common knowledge that the exchange relations between Great Britain and the United States have been sustained during the last four years, first by heavy shipments of gold and sales of American securities, and as stocks of these were exhausted, by borrowing in the New York market and finally by borrowing from the United States Government. But for the creation of credits in this manner it is evident that our sales of products to Great Britain must have long since ceased.

A premium is inevitable when payments run heavily one way, and if trade is one-sided the balance must be made up by the conveyance of other values. Unless this is accomplished the rising premium will discourage and check the continuance and growth of such trade. The greater the balance of payments, in the aggregate, in favor of the United States, the higher will be the premium our debtors or customers will have to pay. This is the process by which the natural laws of trade maintain or re-establish an equilibrium.

It will be evident to the thoughtful reader that this is a very interesting and important subject, and we shall recur to it again. Meantime, the problem is as stated and the reader can grapple it for himself.

The Wage Question.

The question of costs is mainly a question of wages, because the cost of materials of every kind consists mainly of wages. The most serious element in the situation therefore is the fact that there is little prospect for an early reduction of living costs. As stated above, food and clothing are not likely to decline very much in price in the year to come, for these are things which Europe will certainly want, and the supply cannot be meantime increased. Eventually these prices will fall, but not until new crops can be grown.

It is always a difficult matter to readjust wages downward, and few people will regard it as desirable from the broad standpoint of public policy to have wages reduced while the cost of living remains as high as at present. Such action would have an injurious effect upon business even if accepted without controversy, because it would reduce the purchasing power of millions of consumers. If it is necessary to readjust the general level of values it is important that wages and prices move together, and it ought not to be a subject of heated controversy but of intelligent conference between employers and wage-earners and upon a fair basis.

Here then is the difficulty which threatens: that there may not be a sufficient demand for construction work at the high level of prices to keep the industries employed, although an ample demand is in waiting at something like normal prices. How can the situation be supported at least until the cost of such necessities as food and clothing have made the decline which may be expected of them?

Prosperity in War and Peace.

The war has taught the lesson that the production of all the things that are necessary to the comfort and welfare of the population may be very much greater than it has been in the past. Notwithstanding all the men who have gone from the farms to the war and to the war industries, the farms have had a larger production in the last four years than in any other four years of their history; notwithstanding all the miners who have gone to the war and to other industries the production of coal has been greater than ever; notwithstanding the number of men lost to the railways the volume of traffic handled has been greater than ever. And so, if we go through all of the principal industries, producing necessities, we find that the output has been greater than ever. This is the result of a more complete employment of all our productive energies than we have ever had before.

On the face of things we have had a period of great prosperity during the war. The earnings of wage-earners have been greater than ever before, and apparently they have lived better and saved more than in average times. Farmers and business men are generally prosperous. It seems like a paradox that such should be the case as the result of a wholesale destruction of wealth, and there is much that is unreal and illusory in this appearance. A great many people have suffered severe losses by the war. The holdings of Liberty Bonds, although wealth to the individual owners are not wealth to the nation; they are simply claims on the Government revenues in the future. The normal development of the country has been checked in many respects, since the United States became a belligerant.

Nevertheless, so great has been the increased production, as a result of the unity and energy with which the people have devoted themselves to industry that the country probably has gained in wealth since it entered the war, and certainly has gained largely during the last four years. It is stimulating to think of what the gains would have been if all this newly gained energy and efficiency had been expended upon permanent improvements in the industrial equipment.

Even more paradoxical than a period of prosperity during the war would be a period of idleness, depression and distress following the war. Idle men and idle machinery mean waste just as truly as do the destruction of their products in war. It is highly important in order to minimize the difficulties likely to arise in the transition from war conditions to peace conditions that there shall be plenty of work available for the labor of the country, and that the productive agencies of the country be worked to their full capacity. The hopes that are entertained for better living conditions than have prevailed in the past can only be realized by retaining some measure of the greater production which has been shown to be possible.

A period of transition which affects industry generally is a period of danger, because there is a probability of disorganization. In time of peace the industries are dependent upon each other and it is difficult for them to act together where an extensive new programme is required.

Leadership Wanted.

It is natural under such circumstances that they should look to the Government for leadership, as no one else can speak with authority or command prompt co-operation. There is an especial reason at this time for looking to Washington. The railroads are the most practicable agencies for creating an extensive program of construction work, and the railroads are now under Government control. It would be impossible for the companies under the present circumstances to undertake upon their own responsibility large expenditures for betterments the results of which could not be realized for years to come, because of the unsettled state of their relations with the Government, but it might be possible for the companies and the Government to agree upon a more or less elastic program of development. The municipalities also are in position to do much. Their expenditures for improvements have been curtailed and might be expanded somewhat above the average rate. The states and counties might develop an extensive policy of highway construction. Drainage and irrigation furnish other fields of operation.

If a general policy of this kind was developed and the cooperation of communities the country over was asked, sufficient work probably could be brought into sight to stabilize the situation, and once assurance was given that the situation would be supported private enterprise would be encouraged to go ahead on its own account.

The proposal of course does not contemplate useless expenditures. So far as the railways are concerned it would simply be that the improvements which have been postponed in the past for want of funds should not be longer delayed on account of the unsettled relations with the Government. A comprehensive program of railroad reorganization and development is undoubtedly required. As to the municipalities and other governmental agencies it means that they act promptly and in unison in doing work which their growth and prospects make it desirable to do at no distant day. These organizations can afford to supply leadership because they represent the public, and any cost which may result from getting their work done before wages and prices have fallen will be fully made good to them by the general prosperity of their communities. The Government has guaranteed a net return to the railroads

for a period of twenty-one months after the war and it is financially interested in maintaining the earnings.

Post-War Experience.

There are many inquiries as to business conditions following the wars of the past, but every such experience had features peculiar to itself, which make it difficult to draw lessons applicable to present problems. At the close of the Civil War in April, 1865, this country was still distinctively an agricultural community and the armies scattered to the farms and the new lands which were open to homestead entry in the West. There was no very marked change in business conditions for a year or two following the close of hostilities, except that the gold premium declined, which affected the prices of commodities entering international trade. Farm products were higher than during the war from light crops and foreign influences.

Hunt's Magazine for January, 1868, gives the following table of comparative prices compiled from quotations at New York the first of each of the years given, also the price of gold at the time, as this measures the depreciation of the currency. The table is interesting for many reasons.

There are frequent comments in the Magazine upon the high cost of living. The July number, 1866, says, that "wages are higher than ever," which indicates that there had been no industrial reaction up to that time. The August number, 1866, speaks of prosperity of the railroads, and says that notwithstanding light crops of previous year, earnings had not declined. Money was easy, and there was considerable stock speculation in Fall of 1866. The Magazine speaks of a "plethora of capital."

In March, 1867, however, the Magazine has an editorial on the "Prevailing Commercial Depression," which it attributes largely to the failure of Congress to promptly dispose of the fluctuating paper currency. Other people said that the depression was due to the policy of retiring the greenbacks, which Secretary McCulloch was then pursuing. They said he was appreciating them and shrinking currency values too rapidly. There was sharp controversy upon the subject and February 4, 1868, Congress passed an act stopping the contraction of the currency.

In November, 1867, an editorial says there was much idle capital, that for three years it had been accumulating, while the supply of securities had been diminishing rather than increasing, owing to purchases by Europe. Money was very cheap in London.

From	1861	1862	1863	1864	1865	1866	1867	1868
American Gold	Par	\$1.03¾	\$1.33½	\$1.52	\$2.27	\$1.44½	\$1.33	\$1.33½
Ashes, pots 100 lbs.	5.00	6.25	8.50	8.50	11.75	9.00	8.50	8.25
Wheat flour, state, bbl.	5.35	5.50	6.05	7.00	10.00	8.75	11.00	10.00
Wheat flour, best Genesee	7.50	7.50	8.75	11.00	15.00	14.00	16.00	14.50
Corn meal, Jersey	3.15	3.00	4.00	5.65	8.50	4.25	5.00	6.15
Wheat, white Ohio	1.45	1.48	1.53	1.83	2.60	2.63	3.00	3.00
Wheat, Red Western	1.38	1.42	1.48	1.57	2.45	2.05	2.60	2.40
Oats, State	.37	.42	.71	.93	1.06	.62	.69	.80
Corn, Western	.72	.64	.82	1.30	1.90	.95	1.15	1.35
Cotton, mid. up	.12½	.35½	.68½	.82	1.20	.52	.34	.16
Fish, dry Cod, 100 lbs.	3.50	3.50	4.50	6.75	9.00	9.25	8.00	5.50
Fruits, currants, lb.	.04½	.09	.13	.15	.21	.15	.13	....
Bunch raisins, per box	1.75	3.20	3.50	4.10	5.85	4.40	3.85	3.80
Hops, per pound	.25	.20	.23	.33	.40	.50	.65	.65
Iron, Scotch pig, per ton	21.00	23.00	33.50	45.00	63.00	52.00	50.00	36.00
Iron, English bars, per ton	52.00	57.00	77.50	90.00	190.00	130.00	105.00	85.00
Laths, per thousand	1.30	1.25	1.45	1.50	2.40	5.00	3.25	3.00
Lead, Spanish, per ton	5.25	7.00	8.00	10.50	15.00	10.00	7.00	6.50
Leather, hemlock, sole, per lb.	.10½	20½	.27	.30	.42	.36	.32	.28
Lime, per barrel	.75	.65	.85	1.35	1.15	1.10	1.70	1.85
Molasses, New Orleans	.37	.53	.55	.70	1.43	1.15	.90	.85
Oil, Crude Whale, gal.	.51	.48	.83	1.10	1.48	1.60	1.30	.70
Pork, old mess bbl.	16.00	12.00	14.50	19.50	43.00	28.50	19.25	21.15
Hams, per lb. pickled	.08	.06	.08	.11	.20	.16½	.12¼	.13
Butter, State	.18	.19	.22	.29	.55	.48	.43	.45
Rice, good, 100 lbs.	4.00	7.00	8.75	10.00	13.00	12.50	9.25	6.50
Salt, Liverpool ground, etc.	.65	.86	1.25	1.85	2.27	2.00	.56	.50
Sugar, Cuba, good	.06¼	.08¼	.10	.12	.19	.13	.10	.11⅞
Wool, fleece	.30	.50	.60	.75	.95	.75	.65	.60

An editorial referring to the table says:

> Were it possible to give comparative prices of manufactures we think it would be found that in that department of industry prices have generally declined more than on the products here instanced. On many kinds of goods the fall has been so severe as to involve the manufacturers in embarrassing circumstances and not infrequently even in bankruptcy. This inequality in manufacturing and agricultural interests is one of the inequalities bequeathed us by the war.

The Secretary of the Treasury in his report to Congress, in December, 1867, says that "although incomes have been small and trade inactive during the year in no other country has there been less financial embarrassment than in the United States."

In January, 1868, the Magazine speaks of the

"severe experiences of the latter half of 1867," when it says credits were contracted within narrowest limits. It says that grain crops of the world in last three years have been below normal. In June, 1868, it says that "those who anticipated a prosperous Spring trade find that the event does not square with their hopes." It adds, however, that "traders regulate their expectations by experiences during the war and anything falling short of the active business of those years appears unsatisfactory."

In August, 1868, another editorial speaks of dull trade over the world, stagnant enterprise, a plethora of money accumulations, and large purchases of our bonds by Germany and other countries. The Secretary of the Treasury in December said that Europe held not less than $850,000,000 of our bonds, and that our debt to Europe was increasing at the rate of $60,000,000 to $70,000,000 per year. From 1867 to 1873 the merchandise trade balance was steadily against the United States.

Commercial failures in the northern states from 1864 to 1868 were as follows:

1864	$ 8,579,000	1867	86,218,000
1865	17,625,000	1868	57,275,000
1866	47,333,000		

Railway Building.

From this time, times grew better. The crops of 1868 were good, and an era of railway building was under way and with it the building of new towns and opening of new territory. Railway mileage completed, by years from 1865 to 1875, was as follows:

	Miles		
1865	1,117	1870	6,078
1866	1,716	1871	7,379
1867	2,249	1872	5,870
1868	2,974	1873	4,097
1869	4,615	1874	1,117
		1875	2,712

In May, 1869, according to the Magazine, a boom is on: It tells of active building operations in many towns and cities, and says that towns and counties are voting aid to railroads. In July, 1869, it says:

"Railroads are being extended, new manufactories, residences and other buildings are rising up around us, and wherever we go in agricultural districts or in manufacturing centers there is offered to the eye the same evidence of the investment of capital in productive enterprises."

In October, 1869, it says:

At the commencement of the present year there were in the United States 42,255 miles of railways. Before the year closes we shall certainly have at least 50,000 miles. In Illinois at least a half dozen lines are in progress, and the same may be said of Indiana, Michigan, Iowa and Missouri. Never was there such activity in this direction.

Immigration from 1864 to 1875 was as follows:

1864	193,195	1870	387,203
1865	247,453	1871	321,350
1866	314,917	1872	404,806
1867	310,965	1873	459,803
1868	138,840	1874	313,339
1869	352,768	1875	227,498

In 1870 the Franco-German war closed European investment markets to American bonds. Hunt's Magazine was succeeded in this year by the Financial Chronicle, which says at the close of the year that but for the war undoubtedly railroad construction in that year would have reached 10,000 miles.

Danger Flag.

In the summer of 1870, gold was down to 111, but at the close of August the Franco-German war had put it back to 122. Gold at the opening of 1871 was $1.10 7-8, wheat $1.45 per bushel, corn 79 cents, flour $6.25 to $6.50 per barrel, cotton 15 1-4 cents per pound, mess pork $21.00 to $21.25 per barrel. In May, 1871, the Chronicle hung out a danger flag, saying:

For a long time our most experienced financiers have looked with apprehension on the amazing rapidity with which our floating capital has been investing itself in railroads and other vast enterprises.

The year 1872 opened with gold at 108 to 110, and with the country still in the high tide of prosperity, but this was the last year of really boom times. On May 25, the Chronicle, discussing the expansion which was going on, said:

This inflation has spread to real estate. In almost every populous city, houses and lands are valued at much higher prices than six or eight years ago.

In June gold was at 113 to 114, and in August reached 115, the rise indicating remittances to Europe. The trade balance was running against us, and Europe was not taking enough securities to balance the accounts. Money was getting very tight, and as the monetary system was inelastic, the fall demands were very difficult to handle.

The Chronicle was pessimistic in the forepart of 1873. It was of the opinion that the country had overdone the period of expansion. It explained tight money in the spring as the result of the construction of 10,000 to 11,000 miles of railroad since January, 1871, and the "prodigious investments in houses and factories, in machinery and other productive works." "An immense conversion," it said, "of floating into fixed capital has been going on."

Panic of 1873.

On September 18, 1873, Jay Cooke & Co., one of the leading financial houses of the country, with offices in Philadelphia, New York and Washington, failed. It had had charge of the distribution of Government bonds during the war and thus was familiarly known in every part of the country, and the failure gave a great shock in business circles. Several banks in Philadelphia, New York and Washington, which were directly related to it, were obliged to close immediately; country banks withdrew their balances, not only from New York but from other centers. Several of the leading banks of Chicago closed their doors, and a bank panic spread rapidly over the country.

Cooke & Co. were financial agents for the Northern Pacific Railway, then building, and had made large advances to it. Railway promotion came to an end, and practically all other construction work with it. Industrial activity fell to a low ebb, with no recovery until gold payments were resumed January 1, 1879. Meanwhile, railway expansion had opened up a vast amount of new farming territory in the Middle West, and agricultural production had increased to a point

where prices became absolutely unremunerative. Corn was burned for fuel in Iowa and Nebraska, and although food was cheap the wage-earners of the industrial centers could scarcely find work enough to provide a living.

Mr. D. H. Burrell, of D. H. Burrell & Co., Little Falls, New York, writing to this bank recently of that period, said that nearly all the manufacturers up and down the Mohawk Valley failed in those years. "It had been said that low prices would never be seen again, but labor for building streets as well as doing farm work, and so on, ranged here from 85 cents to $1.00 per day in this period of depression."

To summarize the period after the Civil War there seems to have been no important change in conditions until 1867, when there was a period of very dull business, but no panic. Then a recovery set in which was identified with railway building and ended in 1872-3.

German Expansion After 1870.

Germany enjoyed several years of great prosperity in the years following the end of the war with France, 1870-71; but here was a set of unusual conditions. The formation of the German empire from the 25 states furnished the occasion for a reorganization of industry on a scale suitable to the greater territory included in the bounds of the nation and appropriate to the new position of Germany in world affairs. It stimulated the imagination and energies of the German people. The indemnity of $1,000,000,000, which was a very large sum of money in those days, and its expenditure, was also a stimulating factor. A writer upon this chapter of German history describes it briefly as follows:

> After 1870 the old customs barriers and many other hindrances to trade were swept away, and the natural development of industry and trade gave a new impulse to business activity and prosperity. The enormous French war indemnity acted as a further stimulus. Prices rose, including the price of labor, the workingman for the moment felt better off and more self-important. This new capital also led everywhere to the construction of new factories, railroads and enterprises of every kind. It is estimated that in the three years between 1871 and 1874 as many factories were built as in all the preceding seventy years! In Prussia, in 1872 alone, in addition to 1800 existing miles of railroad, 700 more were actually laid down and 1200 planned! Soon, however, unscrupulous promoters, taking advantage of the public interest and confidence in business activity, launched upon an unsuspecting public innumerable companies and schemes which were mere swindles, stock-jobbing methods of robbing the public flourished for a time, until the natural result of over-capitalization and unsound finance came in the terrible crash of 1873.—History of Nations, Vol. 28, p. 438.

The Bond Market.

A change of very real importance and of marked significance has occurred in the bond market during the month of October. In the closing week of activity, prior to the Liberty Loan campaign, the bond market was under heavy pressure. Block offerings were numerous and high grade issues in round amounts were pressing for sale at prices substantially below the current quotations on the New York Stock Exchange. On the understanding that dealers should withhold offerings during the placing of the Government issue, there was little appetite even for these bargain offerings and the first of October found the market for bonds, and especially for first and second grade railroad issues, at the lowest point since the war began. This condition continued into the middle of the month, when with the rapidly occurring favorable military events, and notably the surrender of Bulgaria, the impression that peace was not far off became practically universal and with the end of the Liberty Loan Campaign in sight there was complete reversal in form in the bond market. The change was not so much reflected in the activity of the market, for activity was precluded by the Liberty Loan Campaign in which all investment dealers were giving the greater part of their time, but it was rather reflected in the entire removal of selling pressure from the market. Offerings were generally withdrawn and dealers evidenced a desire to accumulate for later distribution, following the Loan Campaign, and began to reach for bonds at advancing prices. Long term bonds, which, in the so-called war market, had been largely neglected were especially favored in this radical and generally considered "peace movement" in bonds.

The following list of advances in long term railroad issues gives a clear idea of the change in sentiment that occurred from the beginning to the end of the Liberty Loan Campaign:

Issue.	Rise.
Atch. Gen. 4's	5⅜
Northern Pac. Prior Lien 4's	5
C. B. & Q. Gen. 4's	7⅜
Reading Gen. 4's	3⅛
Penn. Gen. 4½'s	3⅝
Un. Pac. Refunding 4's	4¼
Ill. Cen. Refunding 4's	3½
Sou. Pac. Refunding 4's	6⅜
B. & O. Gold 4's	4¾
N. Y. Central Refunding 4½'s	6⅞
St. L. & S. Fran. Prior Lien 4's	4¼
Mo. P. General 4's	5⅜
South. Ry. Dev. 4's	5¾
Pere Marq. 5's	3
D. & R. G. Cons. 4's	5⅞
St. Paul Refunding 4½'s	5⅜

During the week following the Loan Campaign the public entered the bond market seeking especially long term issues and for the first time in more than a year there has been buying by banking institutions for their own account of long term rails. This noted movement is certain to bring about a further advance in this class of issue.

Public utilities led in the general advance, although they were still some fifteen points under the high prices of last year. The most sensational advance was in Russian External bonds, early prices carrying them to the high of the year, approximately thirty points above their low figures. Practically all foreign loans sold at the high prices of the year, French Republic 5½s reaching 102½. During the Liberty Loan campaign outstanding Liberty issues traded upon the Stock Exchange shared in the general upward movement. The closing days of the month witnessed an unusually large volume of trading.

The first important general market issue brought out following the Loan Campaign was the American Tobacco Company, one to five year serial 7% notes on an interest yield basis of 7 to 7¼%. The issue was a tremendous suc-

cess, being oversubscribed nearly ten times and indicated a plethora of investment money that was not absorbed by the Government issue. We understand that the longest maturities were the most popular of all in the subscriptions, a significant fact in that it shows that the general public today realize that the high rates which have prevailed during recent months are not likely to continue and that there will be a very real demand for new issues of longer term than was attempted by distributing houses prior to the last Government Campaign.

National City Company in Japan.

The National City Company, which became a bond-selling organization two years ago and has been rapidly extending its operations, has just taken a new step by sending to Japan a Manager for its Far-Eastern business. It already has representatives in several foreign centres. The end sought is that of mutual advantage and co-operation through closer financial relations. Japan has been making great strides in wealth and industry and the interests represented in the National City Bank and National City Company believe that it is highly desirable from the standpoint of both countries that the interests of the two countries shall be intermingled. They believe that the good understanding now existing will be strengthened by such relations.

The creditor position now occupied by the United States makes it necessary that this country shall become a liberal lender of capital to other countries if we are to increase or even maintain our export trade. We cannot sell goods abroad without being paid for them in some manner, and it is out of the question to obtain settlement for large balances in gold. Our own production of commodities is so varied that we are not likely to greatly increase our importations of these. The only remaining means of settlement is in securities. We must learn to become foreign investors, and the National City Company hopes to perform a useful function in offering such securities which are worthy of confidence. The company is an international dealer in securities, offering American securities abroad, and foreign securities not only here but in all markets.

The company seeks particularly to enlarge by intensive cultivation and education the American market for sound, well established securities. It is a well known fact that the number of bond-buyers in this country previous to the war was comparatively small. Investments have been largely confined to localities, in real estate loans or local stocks and bonds, and the lack of knowledge about good securities has resulted in an enormous waste of savings in unsound speculative ventures.

The National City Company does not handle stocks, and confines its offerings to municipal bonds and the obligations of well-established, successful corporations which are able to show assets and earnings to justify the credit they seek. The best professional talent available is employed to investigate every offering, thus rendering a service which in the nature of things the average investor is unable to do for himself. The end sought on the one side is to provide a great market in which capital can be raised for the expansion of American business, and on the other side to encourage thrift by providing safe investments and familiarizing the public with them.

War Savings Stamps.

The original act for authorizing the sale of War Savings and Thrift Stamps provided for a total issue of $2,000,000,000, maturity value. The Secretary of the Treasury in his estimate figured upon cash receipts of $663,200.000 during the fiscal year 1918, and $1,009,200,000 in the fiscal year ending June 30, 1919. The work of creating a nation-wide organization had to be done before the sales could reach a large volume, but results on the whole have fully met expectations. The stamps were put on sale in December, 1917, and to October 23, 1918, the actual receipts of the Treasury were $807,154,408, which would represent stamps having a maturity value of about $900,000,000. Approximately one-half of the amount originally contemplated has now been sold, and Congress has increased the authorization to $4,000,000,000.

The organization is now developed to do systematic work. There are registered at the Washington headquarters about 150,000 war savings societies, having in number of members from 10 to 12,000, all pledged to save and invest in Government securities. About 31,000,000 persons are pledged to economize and buy stamps. Besides the 55,000 post offices, 232,000 authorized agencies are selling the stamps, and the monthly income to the Government from this source now largely exceeds its total revenues before the war.

The wide distribution secured for these stamps makes them an especially desirable form of public indebtedness, and it is probable that their sale will be continued as long as there exists any occasion for borrowing by the Federal Government. Inasmuch as the Liberty loans will have to be refunded when they come due, this means that the stamps will be a feature of Government finance for a long time.

In September, Mr. Vanderlip, who had been at the head of the organization, submitted to the Secretary of the Treasury a plan for having the work carried on as a part of the activities of the Treasury Department, and this plan having been adopted, he retired and returned to the Presidency of this Bank, from which he had separated himself during his work in the former capacity.

Double Taxation.

The heavy income taxes which are being levied in all countries, not only upon residents and citizens but upon incomes derived from domestic sources, will be, if continued, a serious barrier to international investments, inasmuch as income derived from one country by a citizen of another is subject to taxation in both countries. The American Chamber of Commerce of Paris has recently passed resolutions and made representations to the French ministry upon the subject. The Chamber properly says that although comparatively few people are affected a principle is involved and injustice is done, and it cannot be the intention in any country that the income tax shall react upon some citizens in such a manner as to become in effect a penalty for residence abroad. The Chamber says:

"Export business cannot be done successfully by correspondence, or by occasional visits in foreign markets. The South American field, assiduously worked for years by European commercial representatives (residing in those countries), and until recently, very much neglected by the United States, is a striking example of this truth. If America would export her products, American citizens must reside abroad to take care of the business and this they will be discouraged from doing if their incomes are to be burdened with accumulated taxes from both sides.

The Chamber urges that the matter be made the subject of an international agreement, recognizing the principle that incomes should be taxed but once, and only in the country from which they are derived, irrespective of the domicil, the residence or the nationality of the tax-payer.

Effects Upon Export Trade.

The effects of this double taxation upon our own developing export trade is described in a letter to this Bank from a company which is devoted entirely to such trade and which has been making excellent progress. The writer says:

"The effect of taxation on the export business should, in my judgment, be more carefully considered than it has been. May I take our Company as an example, because it is a fair example and also because I know more of its affairs than of other companies?

"Our capital is all invested in foreign countries, where we pay local taxes as does every other merchant. All of our profits come from abroad and are not earned in this country. We have to pay certain local and state taxes here because we are an American Corporation, and a moderate tax on the small amount of merchandise which we carry here awaiting shipment. This same merchandise is taxed again when it reaches a foreign country, not only in duties but as stock or when sold.

"Now the tremendous income tax is added to this burden, putting us in an unfavorable position with our foreign competitors who pay no income tax except that which may be assessed in the country in which they reside and which we also have to pay. This policy, if continued, is in my judgment harmful to and may eventually very seriously affect the development of our foreign trade.

"Besides this is the question of the capital needed for the full development of foreign trade. Our Company will probably pay between $400,000 and $500,000 on account of income taxes before the rate is reduced to a normal sum. It is not our policy to pay large dividends, and we apply the greater portion of our earnings to our surplus and to extending our business. This sum, if maintained in our surplus, would enable us to do an additional annual business of approximately a million and a half dollars a year. I estimate that these sales would mean the employment of from 500 to 600 men at normal rates of pay. It would thus give additional employment to men at home and additional credits abroad, both of which help the country.

"It is not policy for me to present this matter formally because we do not wish to seek to evade our full share of the costs of war, but I maintain that exporters generally will be hampered in the development of their business by the high income taxes and that the ultimate loss to the country will be greater than the present benefit.

"I am writing this simply for your consideration. The time may come when we shall be willing to make these statements publicly, but for the time being we do not wish to seem to be slackers. For the same reason, we have for the time being decided against incorporating abroad. If our branches were foreign corporations, as they might well be, we should escape practically all of the present income tax and would be much stronger in the end for doing so."

Social Value of Private Profits.

The above statement is not only pertinent to the subject to which it is directed, but has a broader significance. The writer shows how the profits of this company in foreign trade are used to enlarge foreign trade, thereby enlarging the market for American products and increasing the demands on American workshops and American workmen. This is the view of profits which we have repeatedly presented, as opposed to the narrow view which looks jealously upon them as private plunder, taken from the many and devoted wholly to a few. Current discussion commonly proceeds upon the theory that although it is necessary to concede some measure of profit as a reward and incentive to business enterprise, all such profits are in fact extracted and withdrawn from the public and totally lost so far as the public is concerned. There is little recognition of the vital fact that profits furnish the capital for the development of industry and that the benefits derived by the public from such development may greatly exceed the value of the original profits in controversy. The bulk of the profits and incomes which are the subject of controversy are not withdrawn from the public but added to the capital fund and employed in increasing production and rendering services to the public. No discussion of private profits or private capital is intelligent which does not recognize these facts.

There is no final distribution of wealth except as it enters into consumption and disappears. Profits which are retained or re-invested in business have not been finally distributed. They are still to be regarded as means and agencies of production in which the entire community has an interest.

It has been reported by the newspapers that Mr. Henry Ford has stated that he wanted no profit from any of his great factories while the war was on. This is a fine spirit, but in view of the great services which his shops are rendering to the Government at this time it must be regarded as fortunate that he has made large profits in the past. One is moved to ask at what stage in his wonderful career it would have been advantageous to the public to have had his profits or his enterprise arbitrarily curtailed.

Just now there comes to hand a paragraph from the market letter of C. A. King & Co., a grain commission house at Toledo, telling of a fortune left by a prominent citizen of Toledo

recently deceased. It illustrates some of the vicissitudes of business life, and tells something of the ultimate distribution of profits.

Clarence Brown left the greatest will ever recorded here. He passed over recently. His will disposed of nearly two million dollars. He gave much direct to many relatives and friends. He also divided a million dollars among all the different charities, to be paid at the death of his wife. Twenty years ago he was a bright young lawyer, seeking clients. He was indebted to the Owens Bottle Machine Co. for an opportunity to amass his big fortune. This company has made many millions for other Toledo stockholders. It was lucky for them that Michael J. Owens did not remain in Ireland. His machines are almost human. He is. Few years ago he invested in another concern which turned out unprofitable. Some poor friends followed him and lost their money. He made their loss good to them, but was under no obligation to do so. Some of the other stockholders of the Owens have made many handsome gifts to Toledo institutions and friends and will do more.

The fortunes made by the bottling machine were taken from nobody. They consist of new wealth which did not exist before. First of all, bottles were made cheaper to the public; if they had not been no fortunes would have been made from the business. We do not know the history of the Owens machine, but no doubt capital was required for its development; perhaps much capital was spent unsuccessfully upon various machines by people who never reached success. All such capital represented previous profits or savings which have their real distribution through the Owens machine. But even that is not a final distribution, because the profits from the Owens machine are re-invested and in some instances may be as fruitful as the investment in the Owens machine itself. In other instances, as shown by the story, they are lost and never inure to the benefit of the owners at all. The real distribution of wealth is not by ownership but by consumption.

STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS OCTOBER 25, 1918.

(In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco	Total
Gold in vaults and in transit	[illegible]	275,428	[illegible]	29,267	6,279	6,930	25,588	2,219	8,262	220	8,074	10,327	376,679
Gold Settlement Fund	[illegible]	24,297	[illegible]	51,380	[illegible]	9,768	69,503	20,801	32,362	37,252	7,822	21,509	415,676
Gold with foreign agencies	[illegible]	[illegible]	[illegible]	525	204	175	816	233	233	291	204	321	5,829
Total gold held by bank	66,979	301,736	47,009	81,192	38,338	16,893	95,907	23,253	40,857	37,763	16,100	32,157	798,184
Gold with Federal Reserve Agents	[illegible]	265,627	119,189	149,324	[illegible]	45,844	193,672	48,992	48,232	47,322	24,215	93,642	1,184,998
Gold Redemption Fund	[illegible]	[illegible]	[illegible]	330	[illegible]	4,116	10,097	3,165	3,210	1,261	2,159	[illegible]	61,950
Total gold reserves	140,705	612,204	[illegible]	230,846	99,507	66,853	299,676	75,410	92,299	86,346	42,474	126,114	2,045,132
Legal tender notes, Silver, etc.	[illegible]	43,516	745	428	665	241	1,300	1,828	78	126	894	227	53,037
Total Reserves	[illegible]	655,720	[illegible]	231,274	100,172	67,094	300,976	77,238	92,377	86,472	43,368	126,341	2,098,169
Bills disc'td: Sec. by Govt. war obligations	77,561	476,068	[illegible]	61,128	[illegible]	45,531	152,405	44,283	10,878	33,762	15,672	52,035	1,092,417
All other	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	31,178	84,967	28,531	27,616	47,084	30,005	38,987	453,747
Bills bought in open mark't	[illegible]	152,156	[illegible]	[illegible]	[illegible]	10,523	37,583	4,643	3,691	6,576	2,400	38,852	393,623
Total bills on hand	145,124	722,973	122,261	137,661	69,556	87,242	274,955	77,457	42,185	87,422	48,077	129,874	b 1,944,787
U. S. Governm't long-term securities	537	1,401	1,348	1,089	1,234	520	4,509	1,153	127	8,867	4,005	3,461	28,251
U.S. Governm't short-term securities	[illegible]	212,969	22,182	10,881	1,285	1,991	43,112	3,321	1,399	1,095	1,107	20,302	322,060
All other earning assets						24							24
Total Earning Assets	[illegible]	937,343	145,791	149,631	72,075	89,777	322,576	81,931	43,711	97,384	53,189	153,637	2,295,122
Uncollected Items (deduct from gross deposits)	59,213	192,881	86,307	77,218	61,400	46,355	97,526	69,875	27,817	70,744	27,099	40,488	856,923
5% redemption fund against F. R. bank notes	121	1,366	200	240	75	76	554	137	88	481	182	172	3,692
All other resources	[illegible]	[illegible]	[illegible]	[illegible]	2,404	836	[illegible]	[illegible]	231	1,678	[illegible]	2,144	[illegible]
TOTAL RESOURCES	[illegible]	1,790,172	407,686	459,256	236,126	204,133	723,117	[illegible]	164,224	256,159	124,825	322,782	5,270,785
LIABILITIES													
Capital Paid in	6,579	20,220	7,391	8,868	4,018	3,162	11,042	3,754	2,901	3,609	3,115	4,531	79,190
Surplus	[illegible]	[illegible]			[illegible]	[illegible]	[illegible]		38				1,134
Government Deposits	[illegible]	8,523	2,308	5,050	13,624	2,264	6,546	10,919	3,477	8,704	5,098	* 1,612	78,218
Due to members reserve account	[illegible]	[illegible]	92,378	[illegible]	52,807	[illegible]	[illegible]	58,651	50,744	76,317	35,697	96,408	1,683,499
Collection Items	[illegible]	201,277	85,213	52,594	44,094	36,071	71,514	45,017	18,215	45,855	11,366	28,015	702,107
Other deposits incl'd'g For. Government credits		[illegible]		312		75	[illegible]	357	41		35	2,780	117,001
Total Gross Deposits	[illegible]	1,012,571	[illegible]	[illegible]	110,525	81,605	310,483	114,944	72,477	130,876	55,196	125,591	2,580,825
F. R. Notes in actual circulation	151,792	721,939	214,793	244,571	118,810	116,582	385,037	107,164	86,531	111,045	61,942	187,796	a 2,507,912
F. R. Bank Notes in circulation, net liability	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2,513	855	8,067	3,163	2,322	58,859
All other Liabilities	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1,422	[illegible]	[illegible]	2,632	42,865
TOTAL LIABILITIES	[illegible]	[illegible]	[illegible]	[illegible]	236,126	204,133	723,117	230,063	164,224	256,159	124,825	322,782	5,270,785

(a) Total Reserve notes in circulation, [illegible]. * Overdraft.

(b) Bills discounted and bought, U. S. Government short term securities; municipal warrants, etc.: 1—15 days 1,449,760; 16—30 days 221,142; 31—60 days [illegible]; 61—90 days [illegible]; over 90 days 74,548. Total [illegible].

Ratio of gold reserves to net deposit and Federal Reserve note liabilities combined 59.6%. Ratio of total reserves to net deposit and Federal Reserve note liabilities combined [illegible].

DISCOUNT RATES: Discount rates are unchanged from a month ago. A new rate has been established for paper secured by the Fourth Liberty Loan Bonds where the paper rediscounted has been taken by rediscounting banks at a rate not exceeding coupon rates, viz: Boston, Richmond, Atlanta, Chicago, St. Louis and Kansas City, each 4%.

All discount rates on bankers' acceptances are given as follows: 15 days, 4%; 16-60 days, 4¼%; 61-90 days, 4½%.

THE NATIONAL CITY BANK OF NEW YORK

1918

Economic Conditions
Governmental Finance
United States Securities

NEW YORK, DECEMBER, 1918.

End of the War.

WHEN this BULLETIN was issued one month ago the end of the war was foreshadowed, Bulgaria, Turkey and Austria-Hungary having asked for peace without other conditions than the terms of President Wilson's general declarations. Since then Germany has signed an armistice, the terms of which render it impossible for her to renew the conflict, trusting to a final settlement upon the basis of the same declarations. The victory for the Entente Allies and the United States is complete and decisive. The power of the Teutonic nations and their allies was utterly broken. The revelations that have come since the armistice was signed have shown that Germany did not yield merely because her allies failed her; her own strength was also exhausted. Prince Maximilian in a public statement has said that he would have held off for better terms had he not been advised by the army chiefs that the military situation was critical. The western front was breaking, and even if the collapse in the southeast had not come it would have been necessary for Germany to make peace to escape invasion. And not only were the armies broken, but her economic resources were much nearer exhaustion than her antagonists knew and the morale of her people was lower than reports upon the outside had indicated. Up to the last there were people supposed to be well informed upon Germany, who insisted that under no conditions would the German people turn upon their government, and that a defense could be maintained indefinitely. In the end the whole imperial fabric went down like a house of cards. The German people did to William II just what the French people did to Napoleon III, in similar circumstances. The kings and princes of Germany, the House of Hapsburg and the royal family of Bulgaria have gone the same way.

America's Participation.

Mingled with feelings of relief and joy that the bloodshed and wastes of war are at an end, are the feelings of gratification and pride over the manner in which the American troops have acquitted themselves. These youths from the farms, shops, offices, mines, railways and many of them from unfinished courses in the schools, with only a few months of training and with comparatively few experienced officers to lead them, went up fearlessly against the German military organization, and were victorious. They are representative of American citizenship and the qualities which they have displayed reflect lasting honor upon the American name. They have shown how quickly the civilian population of this country can be organized into an effective military force. And not only have they displayed the highest soldierly qualities in battle, but they have honored the country by their high standards of personal conduct, their kindliness toward the inhabitants of regions in which they served, their self-restraint, dignity and clean lives. They have nobly carried the part which their country has desired to play in this war. Gladly and proudly the country will welcome back those who return and tenderly, reverently, it will bring back the fallen to rest in their own soil.

Industrial Mobilization.

On the whole there is good reason for satisfaction over the achievements of the country in organizing and developing its war powers. Along with the rejoicing over peace there is some disappointment that a full showing of results from all the preparatory work and expenditures could not be made. The industrial organization was just getting into shape to show war production on a really great scale. There was inevitably a degree of confusion in the conversion and establishment of industries in haste, but the decisions of chief importance have been justified. The Liberty Motor, for a time the main subject of controversy has been abundantly vindicated, and the air craft program had reached a satisfactory stage of advancement. The ship-building program was delayed at its inception by dissensions, but it has made a good showing this year. Money has been spent with great freedom to hasten results, and in so far as results were actually expedited there is no reason to regret this policy. Instances of mismanagement and waste no doubt will be found, perhaps many of them, but it is a gratifying fact that thus far there are no authentic instances of malfeasance or betrayal of trust in the large undertakings. The cases named in

the air-craft investigation are technical in character and without proof of injury to the government's interests.

Situation in Europe.

Interest in the European situation centers for the moment upon the question whether or not there is to be a general overturning of the social order in Germany and Austria, with a consequent delay in reorganizing the industries of those countries effectively for production. The problem of settlement between the central powers and allies and the social future of the former countries are dependent upon the rehabilitation of the industrial organization. Great confusion exists and apparently the radical elements are in control at Berlin but meeting with strong opposition in other parts of Germany. In the regions which are to be included in the new nations, the people seem to be quietly preparing to set up representative institutions.

Germany is a highly developed industrial country but it is practically bare at this time of raw materials necessary to the resumption of production for the market; moreover the supply of food is scanty and the industries require much work upon them to put them in shape for peace-production. The country needs organization, leadership, credit abroad, and the services of its ablest men of affairs. A reign of Bolshevism would be a repetition of the reign of the Commune in Paris after the war of 1870.

Russia.

The situation in Russia is greatly improved by the elimination of German influences and by the opening of the Black Sea, the latter enabling the allied countries to communicate with the Ukraine region and Southeastern Russia, which are not under the domination of the Bolsheviki. All of Siberia is friendly to the allies, under the government now established at Omsk, but the Bolsheviki have recovered Samara and other points on the Volga River. The government at Omsk is said to have in its possession approximately $400,000,000 in gold, or one-half of the reserve which was held by the Russian State Bank at the beginning of the war. This is a good start toward a financial system, and a considerable portion of the remainder of the gold stock will probably be recovered from Germany. It is not thought that the Bolsheviki have much of the gold in their possession. More good news has been received from authentic sources to the effect that in some portions of Russia the yield of wheat last summer was phenomenally large, something like the freak crop of Canada in 1915. As a result it is now estimated, that although in some sections production was low on account of the social disorder, on the whole there is grain enough in Russia to feed the population if order is restored so that it can be distributed. The worst situation is that in northern Russia, where the populous cities are located in an unproductive region, controlled by the Bolsheviki, who boldly announce their intention to feed none but their own partisans, and are rapidly exterminating all others.

Belgium.

In the countries of the Entente conditions are far brighter, notwithstanding the great losses they have suffered. All are working upon plans for rehabilitation. The Belgian people have welcomed the King and Queen back to Brussels. Antwerp, the chief commercial city, is resuming business, having suffered but little damage to property. The gold reserve of the National Bank of Belgium is intact, having been taken out of the country. Backed by the government, it will be in position to supply domestic credit, but of course Belgium will need help from outside to supply it with food, machinery and raw materials. The machinery taken away by the Germans will probably be returned, as one of the peace treaty conditions.

England.

In England, the Prime Minister has announced that an election will be held at once to give a new Parliament, there having been no election since the war began. Lloyd George wants a coalition government which will support him in negotiating the terms of peace, participating in the organization of a League of Nations, and in carrying out a constructive program in domestic and imperial affairs. There is no intention in England of allowing things to simply drift, with industry disorganized and the business community confused by uncertainty and divided opinions. There is a bold avowal that the industrial situation will be supported, if need be, by a program of public expenditures, and that unemployment will be prevented. This does not mean that the government is proposing to enter general industry on its own account, but simply that it recognizes the dangers of the transition period and the advisability of helping to establish confidence at this juncture. England is still a creditor country on a large scale, notwithstanding her borrowings in the United States and sales of American securities. Her loans made to her allies and colonies during the war exceed what she has borrowed here, although some of these items are far from being available assets at present.

France.

Americans returning from France say that the country presents the aspect of a general state of activity and prosperity, outside of the war-devastated districts. The expenditures of the American and English governments and of the American and English soldiers have put a great amount of money into circulation, with the result that the incomes of wage-workers and shopkeepers are beyond anything that

they have ever known before. In the devastated districts the losses are very great. Government credit will have to be used to rehabilitate this region, and presumably reimbursement will be exacted of Germany. Reimbursement, however, is an after-chapter; France will not wait on Germany's ability to provide the means of reconstruction. The task presents itself as a huge contract for its own industries. Before the war 85 per cent of the iron and steel production of the country was made in the territory which was taken by the Germans in the first weeks of the war. During the war this lost capacity was made good by the construction of new works in other parts of France. Therefore, if the old works of the invaded region have not been destroyed—and they are understood to have been in use by the Germans up to the last—the iron and steel capacity of France is double what it was before the war. This is saying nothing of the Lorraine district, where 75 per cent of the German iron and steel production has been located, and which will undoubtedly be restored to France.

To sum up, France just now is in a strained situation as regards ready capital, and she has suffered severely by the loss of man-power, but she is greater in national spirit—and probably in the productive capacity of her people—than ever before. If the latter is not so at the moment, it soon will be so. She needs aid in getting her people back into homes, and in putting tools into their hands, and in supplying them with the materials needed in the industries. So far as practicable, she will want to do this with her own labor, but time is a factor and doubtless she will want to buy a great deal of equipment and it will be necessary to buy the materials which are not produced at home. While the French people are engaged in this work for reconstruction they will be able to do less for exportation than formerly, and for that reason they will require to have credit for their purchases, and they will be less of a competitor in world markets. It is needless to say that French credit is good in the United States. France is a creditor nation today, and while her national indebtedness is large, it is to her own people, so that as to affecting her credit in other countries it does not count at all.

Italy.

The Italian nation comes out of the war stronger than ever. It will recover the long-lost territory inhabited by Italian people, and although it has made sacrifices of life and money, it is stronger in productive capacity than before the war. Its industries have been enlarged to provide war equipment and are now available for peace business. It has borrowed some money of Great Britain, France and the United States, but it has won a new place in international affairs and has entered upon a new and greater career. The people have been revivified and modernized by their efforts. A new and greater Italy is born. The industries of the country will be expanded in the future, her people will be more effectively employed and live better. Important plans for industrial development are under consideration. Italy has always been handicapped in industry by want of fuel, but there are great possibilities for her in electrification by water power. The internal debt will be no embarrassment if this development of industry takes place.

The Problem of Reconstruction.

These opinions as to the speedy recovery and future prosperity of the countries which have suffered so heavily by the war will be questioned in some quarters. There is a pessimistic view, which holds that these countries must be in a state of exhaustion, that so much capital has been wasted, and so great a mortgage has been placed upon the national income in the form of indebtedness, that they are necessarily reduced to a condition of poverty from which they will be long in recovering. Nobody, it is said, will be able to buy anything and industry will be prostrate.

This theory is essentially the same as the one very commonly held at the outbreak of the war, that the conflict must of necessity be short because the expenditures were so great that they could not be long continued. The money, it was thought, could not possibly be raised to keep the treasuries going more than a few months. We know now that something was wrong about that theory, for after four years of war all of the governments were spending money at a higher rate than at any previous time, and the war did not come to an end for want of money.

Expenditures from Current Production.

The error in that theory was in supposing that the expenditures would come from a reservoir of previously stored-up wealth, which would soon be exhausted, but we see now that the expenditures upon the war, for the most part, consisted of things produced from day to day while the war was going on. All wealth at last is in the form of property or goods of some kind. The only wealth destruction that takes place is of property, and it gives a clearer idea of the losses to think of them in terms of property than to think of them in terms of money. If a country is producing as much as it is consuming or destroying it is not getting worse off. It may be consuming what it ought to be accumulating, but this occurs even in time of peace, and is another proposition.

The truth is that during the war the energies of the belligerent countries were concentrated upon producing a stream of supplies and equipment for the war, all of which were swallowed up and disappeared. That was economic waste truly, of something that might have become capital, but it never was capital. It was a waste of energy which from the economic standpoint might have been better employed. It was a real waste, and we hope the world will have wisdom enough to avoid its repetition in the future, but except as a country's ability to produce a flow of economic goods is reduced it is not worse off economically than it was before.

Much of this war waste was offset by the increased energy, economies and more complete employment of the people, including the entrance of women into industry. Moreover, this expansion of industry and the practice of economy extended all over the world. The neutral countries by increasing their production, by consuming less and by putting a check upon their development work have helped the warring countries to bear their burdens. The effect is spread over the world.

The Real Basis of Prosperity.

The test, therefore, of a country's ability to recover from the war and to regain a state of prosperity, is in its capacity to produce a flow of goods for trade and to supply the wants of the population. It is not a question of how much money has been expended on the war or the size of the national debt. It is a question of production. How much grain, meat, fruits, cotton, wool, coal, oil and factory products are coming to the markets? What is the available amount of machine power? What is the state of the industrial organization and what is the banking power? If the facilities of production and distribution are as great as ever, there is no real obstacle in the way of prosperity.

In some of these countries there has been a destruction of industrial equipment and in all some impairment by wear and tear and neglected upkeep, but there have been also important additions to capacity through new works constructed to supply war needs but which are adaptable to make peace goods. Furthermore under the pressure of war needs there has been a development of knowledge and of methods in industry which will permanently increase production. These gains must be taken into the reckoning, and when all factors are considered it probably will be found that none of these countries is going to be a very long time in reaching its pre-war production, provided there is no disturbance of industry. If social disorder prevails of course the flow of products will be cut off, as in Russia.

Burden of National Debts.

The national debts are often alluded to as a great incubus, but payments upon a debt which is held within the country do not deplete the national wealth. It is unfortunate for a country to incur a debt for an unproductive purpose but the loss occurs when the expenditures are made and does not occur again when the debt is paid. All that occurs at the time of payment is a circulation or transfer of capital, which is vastly different in its effects upon the general welfare from a destruction of wealth. The government collects from one set of persons and pays to another set of persons, and there is no reason to question that the capital will be as publicly useful in the hands of the second set as it would have been had it remained in the hands of the first set. It is presumably just as available for use in industry in the hands of one set as with the other, and that is the chief public interest in private capital.

It must be remembered that the debt itself, or the income from it, is subject to taxation, so that while the debt is certainly not wealth, the basis of taxation is enlarged. The methods of taxation of course are important in their immediate effects, but in the long run there is a natural adjustment which distributes the burden finally. There are endless unseen reactions and compensations throughout the community in such a process of collection and disbursement, which minimize apparent inequalities. If the productive power of the country is maintained and the products are distributed to and consumed by the people, the common welfare will not suffer. All classes are interested in this broad distribution. Wages and prices are continually in course of automatic adjustment to accomplish distribution and consumption; if it were not so, an increasing product would pile up, industry would choke down and further accumulations of capital would be useless and unprofitable. In a modern industrial community the output must be distributed to the masses; no other disposition can be made of it. The situation must find an equilibrium; consumption must equal production. In the modern community it is impossible for the rich to grow richer and the poor poorer, because an increase of riches means an increase in the productive equipment, an increased demand for labor, and a greater supply of goods to be distributed to the population. We may conclude therefore that the national debts will not be paid by diminishing the consumption of the people.

The debts will grow relatively smaller, even if no payments are made on them, as industry becomes more productive. Industry was making rapid strides before the war, and its progress will be accelerated in the future. Every discovery that saves labor cheapens production and increases the average individual income and diminishes the importance of the debts.

The Industrial Flow.

The Bolsheviki make the same error as the people who thought the war would be fought by dipping down into a reservoir of wealth. They

want to seize upon existing riches, but the properties which they have seized in Russia are of no value to them, because those properties are merely agencies for producing wealth, and in the hands of the Bolsheviki they are producing nothing. It is the steady and always-increasing flow of consumable products which is of concern to the public. All of the benefits from these properties come out in the flow. The industries are not producing for the owners but for the consuming public. The farmer is not raising grain for himself but for the bread-eaters, and upon the intelligence and industry with which the farms are tilled depends the welfare of the consumers. Any scheme for changing the management of the properties which reduces the output or increases the cost of the output, is harmful to the whole community.

This inclination to place the emphasis upon ownership of the agencies of production instead of upon volume of product or character of service is manifested by a great many people who are not so radical as the Bolsheviki. It is the weakness in all of the proposals to put the government into business operations. It is advocated as democracy in industry, but it is government from the top and really autocracy and bureaucracy in industry. It results as autocracy and bureaucracy always do in a dead, unprogressive and costly regime. A few men at the top cannot successfully do the thinking and planning for all society. There are undoubted advantages in concentrating authority temporarily for a great national effort, but there must be free play for the individual forces to achieve progress. The most important consideration to be borne in mind about the industrial organization is that there are always endless possibilities of development and the real progress of society comes in this manner.

Position of the United States.

It would be going too far to affirm that the United States has profited by the war, for nobody can strike a balance between what it has gained by the war and what it would have gained in the normal order of things had there been no war. But it is certain that the country comes out of the conflict in a much stronger position than it was before. It has become a creditor country, it has increased the capacity of many of its important industries, it has the good will of other nations to a higher degree than ever before. The opportunities open to it are greater than it has ever faced before.

We have an enormous capacity for the manufacture of steel, machinery and equipment of every kind and the whole world will be wanting these things. Everywhere, even in the backward countries, there is an awakening to the possibility of producing a greater flow of the goods wanted for the welfare of the people, and machinery is the means for doing it. To supply such equipment, however, it will be necessary for us to perform the usual part of a creditor nation and finance the construction work, taking pay in proprietary interests and securities. This is the method by which Great Britain and Germany built up their trade and obtained their extensive foreign interests. As for sales for reconstruction purposes in Europe, it is evident from the state of the exchanges that we can make none except by the extension of credit, and this does not mean ordinary commercial credit but long term credit. We must expect to take securities and when the interest comes due take more securities for that. This is not a situation due to the poverty of the countries, but to unavoidable conditions. They cannot spare gold in the sums that would be required and if they did we could not afford to receive it, for reasons which will be referred to later. They cannot begin to produce largely for exchange until they accomplish their rehabilitation; moreover, there will be a question as to what extent we will want to admit goods which come into competition with our own production. There is, then, no way satisfactory even to ourselves of receiving pay immediately except in securities. In other words, if we want to make sales to them payments must be deferred. Eventually we must expect to so integrate our industries to theirs that we can actually trade with them on a mutually advantageous basis.

The Business Outlook.

It is not possible to doubt that a great period of prosperity awaits the country as soon as the readjustments to a peace basis are made, and in our opinion the required readjustments are not such as to occasion alarm. The situation is inherently strong. Stocks of goods of all kinds are low all over the world, and people have been economizing in purchases until their needs are pressing. This country could have had a great foreign trade during the past year despite high prices, but for the embargoes and shortage of shipping. Construction and repair work is behind. Germany, the greatest steel exporter before the war, has exported none for four years. Belgium and France, also exporters of steel have sold none in the same time and England's sales have been greatly reduced. These arrearages naturally must be made up. In the past the consumption of steel was always rapidly increasing, and it may be expected to increase even more rapidly in the future. The demands of Europe upon the European supply will be so great that the other world markets will have to look largely to the United States for early attention. Furthermore, this country's capacity to absorb iron and steel is very great, and there is unquestionably a heavy domestic demand in waiting. The one question which cannot be definitely answered is as to the level of prices at which this demand will come forward promptly.

The Price Question.

The end of the war raises a question as to the future of prices which of itself puts a check upon buying. Every dealer wishes to keep his stock as low as possible while this question is pending; nevertheless once they are low they must be replenished in order to continue business. Consumers will hold off to some extent also if they expect prices to fall, but where great numbers of people are in possession of more funds than usual, as is the case to-day in many countries, the United States included, a very high degree of restraint in personal expenditures is not to be expected. Expenditures which represent capital investments are more directly affected. Business men are reluctant to put capital into permanent investments at a high level of costs, because it means permanently high costs for their products. Business prudence dictates delay in the case of new enterprises, unless there is some special advantage to be gained by haste. In the case of repairs and replacements delay may be impracticable.

The indications are that there is a good volume of business which will come forward at present prices or with moderate concessions, and more as reductions occur. Including the whole field, there is an assurance of business which in ordinary times would be considered an unusually good outlook for the next year. This is especially true in sections where the agricultural and metal mining interests predominate and prosperity in these regions will react upon the manufacturing states. It is only by comparison with the enormous government demands of war time that the prospect appears doubtful. It goes without saying that war-time conditions will not continue and it is not desirable that the pressure of war-time should continue. There has been a demand for materials and labor in excess of any possible supply, and the conditions thus created in the nature of things were abnormal and temporary.

Cost of Living.

It cannot be questioned that the general tendency will be downward from present levels, but there are counter influences which will tend to hold the movement in check. The most important of these influences is the high cost of living, which, owing to the situation in food stuffs and clothing materials seems not likely to decline much before another world's crop has come to market. It is very desirable that the general wage scale and living costs shall decline together, so that the wage-earner may lose nothing of his present command over the goods which enter into his budget.

In due time the cost of living will certainly come down. It would be impossible by any concert of action that can be imagined to keep farm products at the present level. They are bound to follow the law of supply and demand, and the development which is going on in agriculture, together with the demobilization of the armies will bring them down. The farm tractor is an agency which will have an important effect, especially in the opening of new lands, and there are numerous influences at work. But when farm products come down, so that the farmer is feeding the industrial population at lower prices, he will expect that the industrial products which he buys will also come down. It will be unfair to him if they do not, and if they should not do so promptly there will be a renewal of the movement away from the farm and into the town industries until the equilibrium is restored by natural forces.

Of course it is to be hoped that in these readjustments all parties will gain something, and that will be the case if they all improve their methods and are loyal and fair to each other as partners should be. They are all members of the productive organization, exchanging services with each other, and if they all increase in efficiency, they will all find their labors bringing them larger returns. And no class can increase its net earnings in any other way without reducing the share of the others.

The Transition Period.

Doubts as to the future, therefore, relate to the transition period. It is recognized that there are inevitable difficulties about the transfer of millions of men from the armies and war industries, where their services produce nothing for the public market, back to the peace industries, where everything they produce must be absorbed and taken off the market by the public demand. It is evident that there must be a general readjustment of trading relations, or in other words, of wages and prices, which is a process that takes time. It cannot be regulated by any arbitrary authority. It must work itself out. There has been talk of having the Government fix minimum prices, to prevent a too rapid decline, but it is evident that the Government's control over rising prices, although not absolute, is greater than over falling prices. The producers would not want the Government's minimum maintained if the public failed to buy at that level, and fixing the minimum would accomplish nothing unless the Government stood ready to take the output.

Public Works.

There is one way, however, in which the Government might contribute effectively to stabilize the situation, and that is by providing a program of expenditures upon public works to take the place of war expenditures. The shift of labor from public employment to private employment would thus take place gradually, instead of suddenly, the readjustments would be made gradually, and the confusion and disturbance which is apprehended would be minimized and no longer feared. The French Government already has made appropriations aggregat-

ing $680,000,000 for peace work, of which $360,000,000 is for the railways, $200,000,000 for ports, bridges and road construction, and $100,000,000 is to be alloted to the communes and provinces to aid their undertakings. In Italy appropriations have been made of approximately $350,000,000 for railways, $200,000,000 for public works, $100,000,000 for public utilities, $20,000,000 for adjustment of unemployed labor. What would the appropriations of the United States amount to on that scale if made in proportion to our resources? In England a similar policy will be pursued by the national government.

The only effective assurance against unemployment or wage-reductions is by having a program of work to be done. The situation is an extraordinary one and therefore justifies unusual precautions. It is quite unnecessary for the Government to continue expenditures upon anything like the present scale, or that it should employ anybody for the mere purpose of providing work. There is now a general scarcity of labor the country over, and the wants of private industry should be supplied as rapidly as possible by releasing men from the Government operations. In the case of enlisted or conscripted men it might well be a selective demobilization, as illustrated by the release of anthracite coal miners, so that those who do not have definite employment in view would be the last to leave the service.

Wanted, an Industrial Program.

The Secretary of the Treasury has already ordered the resumption of work upon public buildings. There are so many worthy projects for the improvement of ports and waterways of real importance that it is quite unnecessary to include in such a program any undertaking which is not of fundamental merit. Furthermore, under the leadership of the federal government the cooperation of states, municipalities and minor branches of the public administration undoubtedly may be secured. While in ordinary times expenditures upon public works should be made upon the same principles of economy which are observed in private undertakings, it is not fundamental in the present situation that costs should be compared with what they may be at a later time. There is no loss more complete or waste so deplorable as that of having men idle because they cannot find work. The country will be better off to have work of this class go forward on a scale sufficiently large to absorb any portion of the labor supply not otherwise in demand.

Society has just been taught the great lesson that if there is complete employment for all the people even the enormous wastes of war may be endured and yet a state of general prosperity be maintained. With the pressing needs of the world at this time for commodities of all kinds, unemployment can only occur as the result of general industrial disorganization and confusion. Society should show itself capable of averting such a condition.

An illustration of the conflicting interests and cross purposes which inevitably confuse the community as a whole is seen in the conflicting policies of government departments. While the industrial department goes on approving wage increases, and the war and navy departments go on temporarily with war material contracts for the sake of keeping labor employed, it is announced that the railroad administration will not make any more equipment contracts until costs are lower. It is a very doubtful policy to spend a dollar for war material which there is no likelihood of ever using, but it is wise policy to provide against unemployment and industrial confusion by shifting labor to useful public works.

It would be good policy to allow the railways and public utilities of all kinds to make a depreciation charge to cover the actual difference between the cost of making extensions and improvements now and the cost of making them at the level of wages and prices which is finally determined to be normal and permanent.

This would mean of course that the railway and public utility commissions would allow the companies to be compensated by adequate charges against the public, but the public could afford to pay the cost for the sake of stabilizing the industrial situation and maintaining general prosperity.

Living Costs the Vital Factor in Readjustment.

The contrary view is that a general readjustment is inevitable and that the sooner it comes the better. If a general readjustment was possible at once there would be much force in this argument, but a general and fair readjustment which will be accepted without contention will not be possible until the agricultural situation rights itself the world over, so that living costs can decline.

Living costs must be recognized as the fundamental factor in the industrial situation. In the long run, with industry free the industries will come naturally into fair relations with each other, but in a time like this intelligent guidance is temporarily needed. What is required now is that labor should be shifted to productive work, so far as possible without controversy, until this most serious obstacle to a fair readjustment naturally disappears. With proper leadership and management, aided by general good will, this can be accomplished and the cost spread over the community so widely that nobody will feel it, and in fact the cost will be less than that which might result from allowing the situation to drift.

Although it is desirable as a general principle that wage changes should occur only in conformity to changes in the general level of living costs, of course this rule would not apply in cases where owing to peculiar conditions wage rates have been abnormally inflated and are out of

line with the general wage level. There are obvious instances of this kind. The effort should be to maintain just conditions.

Weakness of an Unorganized Situation.

It is the uncertainty of an unorganized situation which makes it dangerous. In the old days before the Federal reserve system was organized, when every banker felt that he was an isolated factor in the banking situation, the first cloud in the sky caused each one to grab what money he could and lock it up in his own vault, the very action, certain to precipitate a crisis. And yet that action was perfectly natural: each banker felt that what he personally might do or refrain from doing would be of small influence upon the general situation, although perhaps vital to his own institution. It seemed useless to forego taking such precautions as he might for his own protection, since the general situation was beyond his control.

And so in the present industrial situation each individual feels that what he may do or not do will be of small influence upon the general trend, and is disposed to wait and see what everybody else will do, a policy of inaction which tends to industrial disorganization. What is needed to meet the situation is a constructive policy, with leadership strong enough to give assurance that the situation is not going to fall to pieces. With the great amount needing to be done this assurance may be all that is needed. Voluntary action—a general impulse to go ahead with private plans—may leave nothing more for the leadership to do.

For years water-power development has been at a standstill in the United States, under the influence of a fear that if the development occurred the waters now running idly to the sea might make too much money for somebody. This would be an opportune time to have water-power development proceed.

Business Interests.

The interests of merchants, bankers, railway owners, manufacturers, and the entire list of people who compose the trading and employing class is in maintaining well-balanced, efficient industry, with all wage earners employed at good wages and farmers receiving fair prices for their products. In other words, these business men, who are often the subject of attack, are interested in the largest possible flow of products through the channels of trade. They are interested in having the purchasing power of the masses constantly increase to correspond with the increasing production and flow of goods, as processes are improved and new capital is accumulated in industry. It is true that individual employers will want to get labor as cheaply as possible and may be so selfish as to wish to evade their own obligations, but the interests of employers as a class are in having a prosperous community in which to sell their goods. The employers who fail to see this are blind to their own interests. There are such, of course. Unfortunately there is so much ignorance of mutual interests in all classes that none is entitled to indulge in unrestrained indignation at others on this account. The real social problem is how to bring about a general comprehension of the interests which all have in common.

When such comprehension is attained it will be seen that the entire community is interested in developing the capabilities of all its members to make them efficient wealth-producers. The war experiences have taught how dependent the nation is upon the intelligence, the industry, the skill and fidelity of all its citizens. It is the high average efficiency which makes a great people, and it should be the constant care and purpose of the community to bring up to the standard those who are below it.

The war is over, but the Councils of Defense should not be dissolved. In every county and community they should go on with the work of developing the latent resources about them and above all else the neglected human resources. This bank is greatly interested in the development of foreign trade, but it does not hesitate to say that the possibilities of foreign trade, important though it believes them to be, are insignificant compared with the possibilities which lie in increasing the purchasing power of our own people.

Government Loans.

The final figures of subscriptions to the Fourth Liberty Loan, by districts, were as follows:—

District	Quota	Subscribed	Per Ct.
Boston	$ 500,000,000	$ 632,221,950	126.44
Richmond	280,000,000	352,688,200	125.95
Philadelphia	500,000,000	598,763,650	119.75
Cleveland	600,000,000	702,059,800	117.00
Dallas	126,000,000	145,944,450	115.82
Minneapolis	210,000,000	241,628,300	115.06
San Francisco	402,000,000	459,000,000	114.17
St. Louis	260,000,000	296,388,550	113.99
New York	1,800,000,000	2,044,778,600	113.59
Atlanta	192,000,000	217,885,200	113.48
Kansas City	260,000,000	294,649,450	113.32
Chicago	870,000,000	969,209,000	111.40
Total	$6,000,000,000	$6,955,217,150	......
United States Treasury		33,829,850	......
Total		$6,989,047,000	116.48

Payments received at the Treasury upon the loan to November 26 aggregated $5,262,-525,662.

The Secretary of the Treasury has announced that the full proceeds of the loan have been expended, the unpaid portion having been anticipated by the sale of Treasury certificates, which are yet to be paid. He is planning for one more large loan, to be offered next April, probably for $5,000,000,000, although the amount is not named. In the meantime the Treasury will be supplied with funds by the sale of Treasury certificates, of which there will be an offering every two weeks, the first to be dated December 5, 1918, fall due May 6,

1918, and draw interest at 4½ per cent. The Secretary asks every national bank and every state bank and trust company to subscribe to each offering at the rate of 2½ per cent. of its gross resources or 5 per cent. per month. The total of subscriptions asked for from each bank in five months will therefore be 25 per cent. of its gross resources.

The Secretary states that disbursements for current expenditures, including loans to Allies, from July 1 last to November 23 aggregated $8,213,070,568, and that for the month of November they will be close to $2,000,000,000. Settlements upon war contracts will probably make the expenditures even higher in the next few months.

The Secretary indicates that the next loan will be for a shorter term than any of the preceding ones, probably not over five years, which in view of the fact that the war is over is undoubtedly good policy. For the same reason it probably will be advisable to make the interest rate conform more closely to the market rate. It will be a more difficult task to secure a wide distribution of a great loan below the market rate than in war times. The situation will be eased, however, by the fact that the rate on corporation securities is tending downward, and that the end of government bond offerings is in sight. If the present holders of government bonds could be counted on to keep them with the tenacity usually characteristic of the owners of government securities the Liberty Bonds would go above par promptly, but no one can foretell how many will come on the market when all patriotic restraints are loosed. There will be all sorts of propositions to take them in trade, for other stocks and bonds, merchandise, town lots, homes, etc., etc., and the traders will market them. The extent of these operations is the uncertain factor in future prices.

The Banking Situation.

The total earning assets of the Federal reserve banks on November 22nd, were $2,255,560,000, as against $2,295,122,000, on October 25th, $2,080,566,000 on September 27th, $1,345,112,000 on June 28th and $979,141,000 on November 23, 1917. The expansion since July 1st has been very rapid, and it was not pleasant to contemplate a continuance at that rate for another year, but happily the worst is over. The crest of the demand for money is probably past, for although the Government will require a great deal in its settlements, its payments will be in liquidation of war contracts without renewals of them, and the recipients, instead of holding on to the funds for continued operations will be paying off their obligations. During the past year costs and prices have been on a rising scale, constantly absorbing more capital or credit, but from now on there will be at least moderate recessions in both industrial activity and the prices of commodities, with the result that less bank credit will be required. Even if the peace demands upon industry should be equal to the most sanguine expectations they will not be so imperative and regardless of costs as war business of necessity has been. Already there is an easing of the situation. Offerings of commercial paper are lighter, indicating either that operators are expecting to use less money or that they are holding off to see what the developments may be. In this their attitude is like that of the buyers of merchandise. In view of the loaned-up condition of the banks, and their natural inclination to reduce their re-discounts, there will have to be a very considerable degree of liquidation before commercial rates are much affected. The probability that the banks will have to do an even larger proportion of the Treasury financing in the future will also tend to sustain rates. Beginning at once the Treasury will offer from $1,000,000,000 to $1,500,000,000 of certificates to the banks every month, and although these funds will be promptly disbursed, that amount of credit will be tied up in the circuit until the Government's current obligations are materially reduced. The first affect of these Treasury borrowings may be to tighten the money market, but a relaxation must follow as the funds are applied upon private indebtedness.

Bank Reserves.

A very great change has taken place since 1914, in the banking situation of the United States and in the ability of the banks to provide credit, as a result of the establishment of the Federal reserve system and consequent alterations in the reserve requirements of the national banks. The stock of gold in the country has increased by approximately $1,250,000,000 and the stock is now more closely concentrated in the reserve banks than it formerly was in the national banks. Just before the Federal reserve banks began business in November, 1914, the total amount of all kinds of reserve money in national banks was $925,553,000. On November 22, 1918, the reserves of the twelve reserve banks aggregated $2,116,257,000, of which $2,060,265,000 was gold. Each dollar of this reserve money has much greater reserve efficiency under the law than it had in the national banks under the old law.

It is evident therefore that if the general level of prices and volume of trade should decline to anywhere near what it was before the war several interesting changes in the banking situation will occur. The practice of rediscounting at the Federal reserve banks will fall into innocuous desuetude and the earnings of these banks will decline accordingly. The deposits of all banks will diminish by liquidation, being checked off to pay loans, and the percentage of reserves to the remaining deposit lia-

bilities consequently will be high. The result of such a situation will be a demoralization of interest rates, such as characterized the period in 1915 and 1916 when gold was coming into this country freely. The stock was taken up rapidly at that time by expanding industry and rising prices. The war created an unlimited market for goods of many kinds, and every employer in good credit was actively bidding in the market for labor and materials. There were definite contracts to work on which warranted this activity. The bank reserves and available credit will be present in 1919, but will there be contracts offering which will warrant similar activity on the part of employers? If not, then there is going to be a surplus of gold in the country, idle and useless here, and if it is wanted somewhere else the logical course will be to send it there, just as we do wheat when we have a surplus of that commodity.

Redistribution of Gold.

In other words, if we have more gold than we can use, and other countries need it; if under war conditions we have obtained more than our normal share of the world's supply, a redistribution is in order and there is likely to be a profit in buying or borrowing gold in New York and selling it in London, Paris or Berlin. We say that this will be the logic of the situation, but there may be difficulties about it. The chief difficulty will be about the manner of paying for it. What will they give for it, with the balance on account already so heavily in favor of the United States? Will they give us goods for it? At the beginning they will certainly need commodities, raw materials and equipment more than they do gold. Will they give us securities or plain promissory notes for it? That is more likely at the first, but how fast are we prepared to absorb foreign loans? The public market has taken very few as yet. The $8,000,000,000 which the United States Government has taken from foreign governments signifies nothing as to the readiness of our investment markets to take a direct distribution of foreign stocks, bonds or notes. That they can be sold in very considerable amounts, in the event of a plethora of funds here we have no doubt, but can they be sold in such amounts as to relieve us of surplus funds?

If we already have more gold than we can use of course it will be preposterous to have more coming here in payment of the interest on the foreign indebtedness which we hold. We will have to at least take securities for that, and for any balance on merchandise account.

There are people who will listen with amazement to the suggestion that we ought to get rid of some of our gold. It seems altogether inconsistent with our embargo, still in effect, under which we forbid the exportation of gold even to pay our legitimate debts. But it was pointed out two years ago when the heavy importations were made that they involved an after-the-war problem. The perils of having more than our rightful share of the world's gold were pointed out at at that time. They exist in the fact that in the long run there is a relationship between the gold reserves, the state of credit and the level of prices. Gold does not lie indefinitely idle. While it is idle it is harmless, but when it is used in excess it works mischief. Nothing but a condition of industrial activity and level of prices approximating that which we have been experiencing during the war can keep this stock of gold employed, and at this level of prices it is very doubtful whether we can sell anything abroad after Europe has resumed production at the normal rate. In other words this stock of gold seems likely to be either idle on our hands, in which case it is dead capital, or, if in use as the basis of credit, the means of elevating us to a trade position so far above that of the world outside that it will be untenable.

Our Relative Share.

We speak of probabilities because it is not altogether clear that we have much more than our share of gold, or that prices abroad will fall much more than here. The monetary situation of the whole world has changed as a result of the war, both as regards gold stocks and the use of paper money. Although our gold reserves have increased, the gold reserves of nearly all countries have increased. Besides the new production of the last four years, an immense amount of gold has been withdrawn from circulation and accumulated in the banks of issue. In all the warring countries the governments have appealed to the public to deposit gold and take bank notes or Treasury notes in exchange and the public has done this on a large scale. The gold stock of the Bank of Germany has risen from about $338,000,000 to about $620,000,000, without any importations unless possibly from Austria-Hungary, and it has no domestic production. The gold holdings of the Bank of England have increased from $190,000,000 at the outbreak of the war to about $365,000,000 besides which the Exchequer has set aside about $140,000,000 as a reserve against its own currency notes. This gold has come largely out of circulation. This process of concentrating the gold holdings of the countries in the central banks for reserve purposes evidently increases the available supply and the policy will be maintained. A British Parliamentary Committee on the currency has reported in favor of continuing paper money in circulation for this purpose.

Gold Holdings in 1914 and 1918.

The holdings of the principal depositories of gold the world over at the outbreak of the war and at the latest obtainable date were approximately as follows:

	1914	1918
Bank of England	$190,000,000	$365,000,000
Exchequer Note Reserve	....	140,000,000
*Bank of France	804,000,000	663,000,000
Bank of Germany	338,000,000	620,000,000
‡Bank of Russia	776,000,000	400,000,000
Bank of Netherlands	65,000,000	285,000,000
†Bank of Italy	231,000,000	210,000,000
Bank of Spain	105,000,000	430,000,000
Bank of Switzerland	35,000,000	74,000,000
Bank of Norway	14,000,000	32,000,000
Bank of Sweden	28,500,000	73,000,000
Bank of Denmark	21,000,000	50,000,000
Bank of Japan	110,000,000	325,000,000
Argentine Conversion Fund	194,000,000	§378,000,000
	$2,911,500,000	$4,045,000,000

* The 1918 figures are exclusive of about $400,000,000 reported as abroad, which is presumed to be a foreign credit.

‡ The 1918 figures are for amount said to be in hands of government at Omsk. Amount in hands of Bolsheviki, Ukraine or Finland governments unknown.

† Cash.

§ Including gold in legations.

It will be seen that the neutral countries have all increased their gold holdings, and that the Banks of England and Germany have both done so. The neutral countries probably will not retain their present holdings after the normal trade conditions are restored, as a redistribution will be natural. There is a great circulation of paper money in all of the countries which have been at war, which has not been convertible, and which is a factor in prices. After conditions are settled the Treasuries will doubtless endeavor to fund this paper largely into bonds as a preliminary to the resumption of gold payments, but the trade exchanges will have to be established on a normal basis before the free redemption of paper money will be attempted. Even after resumption has been announced a degree of control over gold movements, such as was always maintained in France and Germany may be exercised, and under such conditions the banks of issue may get along with smaller reserves than were customary in recent years preceding the war, and continue in an inflated condition. That may be the easiest way to avoid reducing nominal wages.

It will be recalled that after our civil war the program for retiring the greenbacks which was adopted by the Secretary of the Treasury was stopped by Act of Congress, upon the theory that it was better to let the country grow up to the existing money supply, and the greenbacks have not been retired to this day.

Effect of Foreign Credit Conditions in United States.

What we are interested to know is whether the European credit situation is going to remain sufficiently expanded to maintain a price-level corresponding to that which will normally result in the United States from our present banking reserves. If it is then we will not be at a disadvantage in that respect and no redistribution of gold will take place from here, but this will mean that the general price level the world over is to remain considerably above what it was before the war. It will also mean that the present unfavorable position of the creditor class, of people who have fixed incomes, of public utility corporations and of the gold-mining industry will continue.

If this is to be the situation, the liquidation of credit in the United States will only go far enough to place the banks in an easy position, with a normal percentage of reserve; or, if it goes farther the decline will be temporary, until confidence in the level of prices is regained. As stated above an abnormal excess of reserves will not be maintained very long. Either gold will go out of the country or low interest rates will encourage speculation and enterprise until a normal relation between reserves and credit expansion is attained. As we have seen, there are practical difficulties about exporting gold.

It will be seen that the Bank of England has more than made good in its reserves the gold which it sent to this country, but its percentage of reserve to liabilities is much below that of former practice.

The Cunliffe Committee.

The report of the British Committee upon "Currency and the Exchanges after the War" headed by Lord Cunliffe, late Governor of the Bank of England, shows that if the advice of that eminent body of financiers and economists is followed, England will get upon a working gold basis and eliminate the inflation from its currency as quickly as practicable, but with careful regard for the international situation.

The Committee says that the rise of prices has been much increased by the inflation of bank credit. The London Economist summarizes the findings and mingles its own comments in an editorial article November 2nd, from which we make the following extract:

"The effect of these causes upon the amount of legal tender money (other than subsidiary coin) in bank reserves and in circulation in the United Kingdom are shown in the following paragraph.

The amounts on the 30th June, 1914, may be estimated as follows:

Fiduciary Issue of the Bank of England	£18,450,000
Bank of England Notes issued against gold coin or bullion	38,476,000
Estimated amount of gold coin held by Banks (excluding gold coin held in the Issue Depart-partment of the Bank of England and in public circulation)	123,000,000
Grand Total	£179,926,000

The corresponding figures on the 10th July, 1918, as nearly as they can be estimated, were:

Fiduciary Issue of the Bank of England	£18,450,000
Currency Notes not covered by gold	230,412,000
Total Fiduciary Issues	£248,862,000
Bank of England Notes issued against coin and bullion	£ 65,368,000
Currency Notes covered by gold	28,500,000
Estimated amount of gold coin held by Banks (excluding gold coin held by Issue Department of Bank of England), say	40,000,000
Grand Total	£382,730,000

"There is also a certain amount of gold coin still in the hands of the public which ought to be added to the last mentioned figure, but the amount is unknown."

When to this addition of £200,000,000 to legal tender currency we add the £670,000,000 of potential currency, created in the shape of additional bank deposits, up to the end of last year, there is little need to look further for causes of the rise in prices.

It is thus clear to the Committee that "the conditions necessary to the maintenance of an effective gold standard in this country no longer exist, and it is imperative that they should be restored without delay." Government borrowings, done in the wrong way, have produced a state of things in which cur-

rency is multiplied without any regard to its gold backing. So Government borrowings should cease at the earliest possible moment, and "an adequate Sinking Fund should be provided out of revenue, so that there may be a regular annual reduction of capital liabilities, more especially those which constitute the floating debt." Money needed for reconstruction purposes "should not be provided by the creation of new credit," and "in so far as such expenditure is undertaken at all, it should be undertaken with great caution. . . . The shortage of real capital must be made good by genuine savings. It cannot be met by the creation of fresh purchasing power in the form of bank advances to the Government or to manufacturers under Government guarantee or otherwise, and any resort to such expedients can only aggravate the evil and retard, possibly for generations, the recovery of the country from the losses sustained during the war." A timely recognition of these homely truths would enable many well-meaning gentlemen who propose to cure all our post-war ills by multiplying money and credit instead of goods, to take a well-earned holiday, most beneficial to themselves and to the public. "Under an effective gold standard all export demands for gold must be met," and foreign claims must consequently be checked as before by the use of Bank rate. The Committee expresses the obviously sensible view that the differential rates for home and foreign money, which have saved us so many millions in the cost of Treasury bills, are neither practicable nor desirable when the war is over. "The low home rate, by fostering large loans and so keeping up prices, would continue to encourage imports and discourage exports."

The Committee shows its careful interest in the international situation, and the concern about the dangers of credit expansion for commercial purposes in the following paragraph:

We shall not attempt now to lay down the precise measures that should be adopted to deal with the situation immediately after the war. These will depend upon a variety of conditions which cannot be foreseen, in particular the general movements of world prices and the currency policy adopted by other countries. But it will be clear that the conditions necessary to the maintenance of an effective gold standard in this country no longer exist, and it is imperative that they should be restored without delay. After the war our gold holdings will no longer be protected by the submarine danger, and it will not be possible indefinitely to continue to support the exchanges with foreign countries by borrowing abroad. Unless the machinery which long experience has shown to be the only effective remedy for an adverse balance of trade and an undue growth of credit is once more brought into play, there will be very grave danger of a credit expansion in this country and a foreign drain of gold which might jeopardize the convertibility of our note issue and the international trade position of the country. The uncertainty of the monetary situation will handicap our industry, our position as an international financial centre will suffer and our general commercial status in the eyes of the world will be lowered. We are glad to find that there was no difference of opinion among the witnesses who appeared before us as to the vital importance of these matters.

Stock and Bond Market.

The stock market was strong in the early days of the month, in the first exuberance over the certainty of peace. Later the market reflected upon the situation more soberly, and a reaction occurred, affected in industrials by reports of cancellations of war contracts and commercial orders and in railroads by a report that the Security Owners' Association was taking steps to have the roads promptly returned to the owners. Evidently the market reflects an opinion that such return is undesirable until a public policy relative to the roads is fully developed.

The speculative bond market also slowed down in the latter part of the month, as a result probably of too rapid a pace last month. It is difficult to see why talk of a slow-down in business should effect unfavorably either stocks or bonds of assured returns, as a business reaction would mean idle money, and naturally create a demand for income-bearing securities of a high order.

The best barometer of the November securities market is the large over-subscription of $20,000,000 Liggett & Myers Tobacco Company 6% Notes on a 6¾% basis. This compares with a 7%—7¼% basis on $25,000,000 American Tobacco Company 7% Notes offered in October. Prior to the Fourth Liberty Loan financing of this character had been offered on 7½%—7¾% basis. While some signs of hesitancy were in evidence at the close of the month, nevertheless the real absorptive power of the investment market does not seen to have been tested, for new issues have not been offered in large amounts and the larger blocks of market securities seem to have been generally withdrawn.

The municipal market has absorbed all new offerings with alacrity and prices of the larger city issues have advanced to a 4.20%—4.25% basis. It is anticipated that may municipalities will offer securities when restrictions are lifted, and New York City will probably be among the first as it is sorely in need of dock and port improvements and school buildings.

Liberty Loan issues held firm during the month until the closing week when the Fourth 4¼s sold below 98, and a general decline was registered in the other issues.

Railroad buyers have been offered a somewhat meagre bill of fare. $9,850,000 Kansas City Terminal 6% Five Year Notes were quickly placed on a 6.05% basis, and the Norfolk & Western Railroad has offered to its stockholders $18,000,000 Ten Year 6% Convertible Bonds at par. The investment market has been interested in the maturity of new issues, for the general sentiment is changing from short term notes to the longer term mortgage bonds. A ten year maturity, however, is the maximum test as regards new offerings.

Among the industrials, the American Thread Company is the first to offer longer term mortgage bonds, their issue of $6,000,000 First Mortgage 6% Ten Year Bonds on a 5⅞% basis being quickly over-subscribed.

Following are some of the more important offerings:

$6,000,000	American Thread Company 1st Mtge. 6% Bonds, due December 1, 1928 at 101 and interest, yielding 5⅞%.
3,250,000	Chicago Pneumatic Tool Co. 6% Bonds, due October 1, 1920-23 at prices to yield 7.25%.
1,750,000	Cleveland, Cincinnati, Chicago & St. Louis Ry. Co. 4½% Debentures due January 1, 1931, at 80 and interest, yielding 7%.
400,000	Continental Gas & Electric Corp., Cleveland, 6% Notes due September 1, 1920, at 97 and interest yielding 7¾%.
500,000	Farm Loan 5% Bonds, due May 1, 1938, Optional after May 1, 1923, at 101½ and interest, yielding 4.65% to 1923 and 5% thereafter.
3,000,000	Jacob Dold Packing Company 7% Notes, due November 15, 1919-1923 at prices to yield 7% to 7¼%.
9,850,000	Kansas City Terminal Railway Co. 6% Notes, due November 15, 1923 at 99¼ and interest, yielding 6.05%.
20,000,000	Liggett & Myers Tobacco Company, 6% Notes, due December 1, 1921 at 98 and interest, yielding 6¾%.
550,000	Mahoning & Shenango Ry. & Lt. 6% Bonds, Series "B," due November 1, 1920, at 97¼ and interest, yielding about 7½%.
4,000,000	Mengel Box Company 7% Debentures, due November 1, 1920-1923 at prices to yield 7.25% to 7.40%.
2,500,000	New Orleans & Northeastern R. R. Co. 4½% Bonds, due January 1, 1952, at 86¼ and interest, yielding 5.40%.
375,000	Oklahoma Railway 8% Bond-Secured Notes, due March 1, 1921 at 100 and interest, yielding 8%.
500,000	Parafine Companies, Inc., San Francisco, 7% Notes, due December 1, 1919-24, at 100 and interest, yielding 7%.
1,500,000	Pennsylvania Company 4½% Loan, due June 15, 1921 at 97⅜ and interest, yielding about 5⅝%.
1,841,000	Puget Sound Traction, Lt. & Pr. 7% Bonds, due June 1, 1921 at 98½ and interest, yielding 7.65%.

511,000 Sinclair Oil & Refining Corp. 5% Equip. Trust Notes, due 1919-21 at prices to yield 6¾%.
750,000 Standard Gas & Electric Co. 7% Notes, due September 1, 1921 at 97½ and interest, yielding 8%.
100,000 Western Heater Dispatch Company Equipment 6% Bonds, due 1920-1924 at prices to yield 7.25%.

New municipal offerings include:

$1,019,000 Akron, Ohio, 5% Water Works Bonds on a 4.45% basis.
1,315,000 Akron, Ohio, 5% Water Works Bonds on a 4.50% basis.
112,000 Blaine County, Montana, 5½% Bonds on a 5% basis.
55,000 Carbon County, Montana, 5½% Bonds on a 5% basis.
1,000,000 City and County of Denver 4½% Water Bonds on a 4.57% basis.
500,000 Cleveland, Ohio, 4½% Bonds on a 4.40% basis.
490,000 Des Moines, Iowa, 4½% Bonds on a 4.50% basis.
988,700 Detroit, Michigan, 4½% Sewer Bonds on a 4.25% basis.
50,000 Hamilton County, Ohio, 5% bonds on a 4.50% basis.
95,000 Kentawka Drainage District, Mississippi, 6% Bonds on a 5¾% basis.
1,425,000 Los Angeles County, Cal., Flood Control Dist. 5% Bonds on a 4.80% basis.
100,000 Miller County Levee Dist. No. 2, Arkansas, 6% Bonds on a 5.50% basis.
100,000 Mitchell, South Dakota, 5% Bonds on a 4.70% basis.
2,000,000 New York City Corporate Stock on a 4.325% basis.
500,000 New York State Canal 4½% Bonds on a 4.10% basis.
100,000 Ossining, New York, 5% Water Bonds on a 4.50% basis.
272,000 Outagamie County, Wisconsin, 5% Highway Bonds on a 4.70% basis.
71,000 Pacific County, Washington, 4½% Bonds on a 4.70% basis.
7,000,000 Philadelphia, Pa., 4½% Bonds on a 4.25% basis.
500,000 Poinsett County, Ark., Drainage Dist. No. 7, 5% Bonds on a 5.75% basis.
199,000 Quincy, Mass., 4½% Bonds on a 4.15% basis.
220,000 Rochester, New York, Notes on a 4.50% basis.
2,268,000 Rochester, New York, 4½% Bonds on a 4.20% basis.
215,000 Salt Lake City, Utah, 5% Bonds on a 4.45% basis.
25,000 State of South Carolina 5% Bonds on a 5% basis.
235,000 St. Paul, Minn., 4½% Bonds on a 4.20% basis.
200,000 St. Paul, Minn., 4½% and 5% Sewer Bonds on a 4.60% basis.
200,000 Van Zandt Co. Road Dist. No. 4, Texas, 5½% Bonds on a 5.30% basis.
63,000 Westchester County, New York, 4% Bonds on a 4.30% basis.
65,000 West Hoboken, New Jersey, 5% Bonds on a 4.55% basis.
110,000 Woonsocket, Rhode Island, 5% Bonds on a 4.50% basis.

The average price of 40 standard issues, as reported by the Wall Street Journal on November 29 was 87.68 compared with 84.94 on October 29, and 84.78 on November 29, 1917.

Postal Banks and Parcels Post.

Chicago, Ill., November 19, 1918.

Mr. President of The National City Bank of New York,
(Name unknown to me.) *New York, N. Y.*

DEAR SIR:

By chance a copy of your BULLETIN (issue of October last) fell into my hands, and—though I am only a poor laboring man and have nothing to invest—it was so interesting that I shall be grateful if you will send it to me regularly.

You have statistics of how labormen's and farmers' subscriptions for Liberty Bonds the four issues—compare in bulk to those of bankers and corporations. I will call it a special favor if, at your convenience, you will forward me the facts.

Who, or what, were for years and years opposed to and blocked the establishment of Postal Saving-banks in the U. S.? If it was not the great banking and financial corporations, as I have been told, I would be pleased to know the truth.

I am under the impression that the once great, powerful and influential express companies for quite a number of years blocked the Parcel-post from being established in the United States—is that true or not? I have no absolute facts, and shall be very thankful for enlightenment.

Don't be alarmed, Sir! I am not an anarchist, socialist or crank, but a plain, honest, intelligent 100 per cent. American, and feel rejoiced at our complete victory and the ending of the war. I belong to no union, club or society—do my own thinking and writing. My information on the above points comes from newspapers—the great dailies—and I have a good memory; it was years ago I read it.

Hoping you will give me what information you may have to my unimportant questions, I am,

Yours very respectfully,

The statistics as to bond purchases by wage earners and farmers are not available. It would be interesting to have more information as to the small subscriptions. It is certain that they aggregated a very important part of the total.

It is not correct to say that the great banking and financial corporations actively opposed and blocked the passage of the postal savings act. That class of corporations, excepting savings banks, do not usually receive savings deposits and did not interest themselves in the agitation. A good many banks in the smaller towns, however, actively opposed the establishment of the postal system.

It should be recognized that there were economic reasons of weight against the establishment of postal banks in this country. In other countries the postal savings deposits are invested regularly in government bonds, but in this country for years before the present war the bonded debt was small, and most of it paid only 2 per cent. interest. It, therefore, was impracticable to invest the deposits in that way. The plan was also objected to on the ground that it was a better policy for each community to keep its savings in local banks, which would loan them out in the same community, thus contributing to the up-building of the community, than to have them withdrawn to Washington for investment in securities that might be selected there. This is a large country, much of it new, with many communities short of capital and needing all their own at home. Furthermore, the interest paid by local banks would be higher and thus afford a greater incentive to saving. Here in New York savings banks are paying 4 per cent. while the postal bank pays 2½.

A compromise was finally effected by which the deposits of each postal bank, instead of being withdrawn to Washington, are re-deposited in local banks, on government account, and are loaned in the same community. The interest received by the depositor is less than he would get if he deposited the money with the bank direct.

The chief argument for the postal savings bank, and a strong one, is that it furnishes absolute security and thus encourages many people to save and deposit their money who otherwise would not use a bank at all.

Those who opposed the postal bank urged that the attention of the government should be directed to making all banks safe and to cultivating popular confidence in them. Since then the entire banking system has been greatly strengthened by the passage of the Federal reserve act.

As the country grows older there is not the same objection to the withdrawal of funds from localities. Moreover, the war has made it necessary for the Government to call on all sections for funds, even at the cost of retarding local development. Indeed, it has been necessary to generally suspend develop-

ment work, not only because the Government needed the money, but because it needed men and materials. Hereafter there will be a great public debt in which the postal savings may be invested, or in which the public afraid of banks can invest direct.

As to the parcels-post, the opposition of the express companies was not the important factor in delaying its establishment. The important opposition came from the small towns all over the country, whose business men were afraid the parcels-post would build up the mail order business. They urged that the country town was an important cultural factor in rural life, and that the parcels-post would reduce its importance. It was a dubious argument, and the country towns were more frightened than hurt, but they were responsible for delaying the legislation for a number of years. The rural congressman was far more amenable to the arguments of the country store-keepers and country bankers of his own district than to any influence the express companies could wield.

It is undeniable that all classes of people, bankers and store-keepers not excepted, are sensitive to their own interests, more or less selfish, and prone to confuse their own interests with what they conceive to be the interests of the public. We have to put up with that and recognize that it is a common failing. But every man should train himself to judge of every question upon its merits as they appear, without prejudice. Bankers are not always agreed, and they are sometimes right and sometimes wrong. It is good policy to hear all sides fairly and then decide for yourself.

Steel Capacity.

We are indebted to the American Iron and Steel Institute for the following statement of the increase in capacity for the production of pig iron and steel in the United States since the beginning of the year 1914:

	Gross Tons Dec. 31, 1913	Dec. 31, 1917
Annual Capacity of completed Blast Furnaces of Pig Iron	44,395,000	48,100,000
Annual Capacity of all kinds of Steel Ingots and Castings	39,689,000	52,433,000

During the first six months of 1918, at least three modern Blast furnaces, which were in course of construction on Dec. 31, 1917, were completed—one by the Lackawanna Steel Company, one by the Illinois Steel Company, and one by the Iroquois Iron Company. These three furnaces have an estimated annual capacity of 559,100 gross tons. On June 30th, 1918, twelve new Blast Furnaces were being built.

The above figures for Steel Ingots and Castings for 1917, are provisional, but the final figures will not differ materially from the provisional figures given above.

Since the first of January, 1918, the companies named below have completed and started Open Hearth Steel Plants.

	Estimated Annual Capacity. Tons
Canton Sheet Steel Co., Canton, Ohio	75,000
Erie Forge and Steel Co., Erie, Pa.	54,600
Mark Mfg. Co., Indiana Harbor, Ind.	225,000
Tacony Ordnance Corp., Tacony, Pa.	50,000
Trumbull Steel Co., Warren, Ohio	264,000
Worth Steel Co., Claymont, Del.	200,000

In addition a number of small plants have installed Open Hearth Furnaces, Electric Furnaces, etc., and some additions have been made to existing plants.

Canada.

The Second Victory Loan in Canada, closed last month, was a fine success, subscriptions amounting to $676,027,217. This is the fifth Dominion loan placed at home.

The subscriptions to each and the total are given below:

First war loan, November 22, 1915	$103,729,500
Second war loan, September 12, 1916	201,444,800
Third war loan, March 12, 1917	260,768,000
Fourth war loan, November 12, 1917	419,289,000
Fifth war loan, October 28, 1918	676,027,217
Grand total of Canada's war loans	$1,661,258,517

The production of wheat in Canada last season was 210,315,000 bushels, against 231,730,200 in 1917, but the total of all grains was 758,261,700 bushels, against 698,394,700 in 1917.

Canadian imports for the twelve months ending with last September were $897,128,837 and exports, $1,401,371,772.

The *Financial Times* of Montreal states that it is informed on authority which cannot be at present disclosed, that the chief claim which will be presented on behalf of Canada by Sir Robert Borden at the Peace Conference will be for the expenditure in Canada of $1,000,000,000 of the indemnity to be exacted from the enemy in reparation for his devastation in France and Belgium.

The exchange situation with the United States is slightly less unfavorable to Canada, although the premium on New York drafts is still about 1½ per cent.

General Business Conditions.

The developments in industry during the last month on the whole need not be deemed discouraging, although Government contracts have been cancelled right and left, and there have been numerous efforts to cancel commercial orders. The Government cancellations were inevitable whenever the war ended, and the others are the result of timidity. Strenuous efforts are being made to hold the latter in check. In wholesale circles conditions are quiet, with a conservative trend. It is too early for foreign business to appear on an important scale.

The Government has decided not to offer its surplus wool stocks at auction, which is a relief to the trade. It is understood that offerings in moderate amount will be made from time to time, the first to be at prices somewhat below the present market. This wool came to the Government at high prices, and it is interested in

sustaining the price until present supplies are worked off. The next crop will doubtless have to take its chances on the market.

The woolen trade has a new source of anxiety, however, in the enormous stocks of clothing which the Government has bought for the Army, which will never be needed for that purpose. Will they be thrown on the home market, or will the Government assume the task of working them off abroad?

Cotton has been weak, on the small exports, the total since August 1st, being 1,213,826 bales as compared with 2,476,857 for the corresponding time last year. November closed with the New York price around 29 cents, as compared with 31 last year. On the theory that consumption has been very low for several years and that all markets will now be opened up, there ought to be a large consumption this coming year, but the courage of buyers has not been sufficient to sustain the market in the face of prospective cancellations of Government business and the slow trade in cotton goods. The Fall River mill operatives, who had asked another wage increase of 15 per cent. after talking the situation over with the employers concluded to defer action and continue work at the present scale.

The acreage sowed to winter wheat is considerably above last year's and the crop goes into the winter in good condition. As wheat is the only grain with a guaranteed price doubtless the acreage sown next spring will be large. The Government guaranty will cover all wheat harvested in the crop year ending June 30, 1920, but presumably this will not let in much which is harvested after the calendar year, 1919. If Mr. Hoover's information is correct the world will need all that can be produced next year. It is possible to sow winter wheat in some of the Southern states in December, and there would seem to be every reason for making the acreage as large as possible. It is the one crop upon which the farmer runs no risk of a price decline.

STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS NOVEMBER 29, 1918.

(In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco	Total
Gold in vaults and in transit	3,875	277,665	104	28,196	2,336	7,573	21,168	2,096	8,416	202	5,669	10,638	370,938
Gold Settlement Fund	21,465	17,142	[illegible]	34,723	21,754	8,546	126,902	26,493	23,673	26,971	6,514	41,580	395,292
Gold with foreign agencies	[illegible]	2,011	408	525	204	175	816	233	233	291	204	321	5,829
Total gold held by banks	25,748	296,818	40,041	63,444	24,294	16,294	151,886	28,822	32,322	27,464	12,387	52,539	772,059
Gold with Federal Reserve Agents	[illegible]	[illegible]	78,605	132,321	[illegible]	44,399	244,167	53,083	57,279	52,799	22,500	117,550	1,216,541
Gold Redemption Fund	6,817	[illegible]	7,700	635	5,798	5,242	12,057	3,322	3,926	3,704	2,153	257	76,613
Total gold reserves	103,350	[illegible]	126,346	196,400	90,529	65,935	408,120	85,227	93,527	83,967	37,040	170,346	2,065,213
Legal tender notes, Silver, etc	3,151	44,624	574	638	647	228	1,515	1,975	83	153	1,297	273	55,158
Total Reserves	106,501	648,654	126,920	197,038	91,572	66,163	409,635	87,202	93,610	84,120	38,337	170,619	2,120,371
Bills disct'd: Sec by Govt. war obligations	131,096	[illegible]	165,505	107,287	65,683	41,205	123,047	47,819	21,180	22,390	16,646	43,748	1,412,511
All other	12,616	84,263	16,486	17,313	18,956	39,135	60,987	32,233	11,827	47,765	32,327	28,776	402,684
Bills bought in open mark't	[illegible]	166,732	15,875	50,673	2,724	12,927	37,357	3,756	12,436	9,304	4,025	34,303	375,341
Total bills on hand	168,941	877,900	197,866	175,273	87,363	93,267	221,391	83,808	45,443	79,459	52,998	106,827	b 2,190,536
U. S. Governm't long-term securities	1,403	1,398	1,375	1,088	1,234	519	4,509	1,153	125	8,867	4,000	3,461	29,132
U.S. Governm't short-term securities	5,416	[illegible]	6,299	8,731	3,284	4,022	12,612	5,568	2,997	2,909	2,400	3,003	92,664
All other earning assets						27							27
Total Earning Assets	175,760	914,721	205,540	185,092	91,881	97,835	238,512	90,529	48,565	91,235	59,398	113,291	2,312,359
Uncollected Items (deduct from gross deposits)	64,049	[illegible]	81,055	69,356	57,018	34,386	78,889	66,619	19,139	55,918	20,098	46,497	736,328
5% redemption fund against F. R. bank notes	[illegible]	1,055	300	383	256	207	719	253	188	557	227	256	4,621
All other resources	1,137	[illegible]	3,590	797	1,157	810	1,366	550	197	1,043	803	1,621	21,309
TOTAL RESOURCES	347,667	1,715,972	417,405	452,666	241,884	199,401	729,121	245,153	161,699	232,873	118,863	332,284	5,194,988
LIABILITIES													
Capital Paid in	[illegible]	20,726	7,486	8,886	4,044	3,175	11,108	3,785	2,928	3,655	3,141	4,540	80,072
Surplus	[illegible]	649			116	40	216		38				1,134
Government Deposits	42,802	26,616	28,087	28,256	4,519	7,325	14,106	19,583	9,187	11,754	3,989	10,933	207,157
Due to members reserve account	93,043	636,346	78,428	130,690	53,665	41,919	217,166	53,026	46,160	55,460	31,155	78,835	1,488,893
Collection Items	46,216	161,993	71,411	53,774	40,754	24,204	60,554	50,401	11,758	37,618	16,283	27,701	602,667
Other deposits incl'd'g For. Government credits		101,637		68		28	1,554	307	15	2	8	2,275	105,894
Total Gross Deposits	182,061	926,592	177,629	185,788	98,938	73,476	293,380	123,317	67,120	104,834	51,435	119,744	2,404,611
F. R. Notes in actual circulation	150,906	720,294	223,730	247,535	134,467	117,151	403,634	111,403	87,597	111,958	58,792	201,209	a 2,568,676
F. R. Bank Notes in circulation, net liability	4,256	25,627	5,273	6,662	2,067	3,889	14,131	4,664	2,420	9,397	3,824	3,788	86,003
All other Liabilities	3,771	22,084	2,985	3,795	2,252	1,670	6,652	1,984	1,596	3,029	1,671	3,003	54,492
TOTAL LIABILITIES	347,667	1,715,972	417,405	452,666	241,884	199,401	729,121	245,153	161,699	232,873	118,863	332,284	5,194,988

(a) Total Reserve notes in circulation, 2,568,676.

(b) Bills discounted and bought: U. S. Government short term securities; municipal warrants, etc.: 1—15 days 1,314,534; 16—30 days 227,098; 31—60 days 479,890; 61—90 days 166,276; over 90 days 95,429. Total 2,283,227.

Ratio of gold reserves to net deposit and Federal Reserve note liabilities combined 59.8%. Ratio of total reserves to net deposit and Federal Reserve note liabilities combined 63.2%.

DISCOUNT RATES UNCHANGED FROM A MONTH AGO.